Municipal
Pension Plan

Municipal Pension Plan 2012 Annual Report

January 1, 2012, to December 31, 2012

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Spotlight

Meet Miya

Miya is an early-childhood educator. She recently returned from parental leave and now works part time. How does being in the Plan benefit Miya?

What does having children mean to a plan member? What happens with parental leave and beneficiaries? While retirement may not be top of mind for Miya in the early stages of her career, the Municipal Pension Plan is designed to ensure her service and salary—even as a part-time worker—helps build her pension. If Miya wishes she can buy back her parental leave (there are time limits) to ensure she doesn't lose time on her pension.

Whenever Miya has questions, the Plan has different ways to provide information to her. Miya can:

- find information on the Plan website: **mpp.pensionsbc.ca**
- review the latest information in the *Report to Members*, sent to her work with her annual *Member's Benefit Statement*
- use My Account online services anytime to search for information and use the personalized pension estimator
- contact Client Services staff if she needs one-on-one help

Meet Russell

Russell is a human resources supervisor at a hospital. He just turned 59 and he and his wife want to start planning his retirement. How can the Plan help Russell?

Getting ready to retire is an exciting (and sometimes scary) time in a member's life. All Russell's years of working and contributing to his pension are about to pay off. The Municipal Pension Plan has knowledgeable staff on hand to answer questions and provide the following services:

- Thinking About Retiring pension seminar
- Personalized pension estimator in My Account's online services
- PensionFacts and forms at **mpp.pensionsbc.ca**
- Retirement application package with:
  - *Choosing Your Best Pension Option* booklet
  - Common questions and answers and a check list to help members make sure they have all the forms and paperwork they need
  - Retirement Health Benefit Premiums information and annual rate sheet

Meet Jan

Jan is a payroll officer for an organization that recently joined the Municipal Pension Plan. How does the Plan help Jan during the first year?

The Municipal Pension Plan offers help to employers and their staff every step of the way with regular training, employer bulletins, reminders and more. The Plan provides:

- Client Services staff ready to answer questions and provide help
- employer training workshops
- employer training with online courses (eLearning)
- a quick reference guide
- searchable employer manual
- employer login area with training videos, message board and secure file submission

Chair Message

Imagine today there is a young woman starting her first day of work with a Municipal Pension Plan employer... She could be a health care provider, police officer, city worker, or teaching assistant. This is an exciting day for her: she is eager to start her career because who knows where it will lead! As years pass and she advances, she might one day find herself sitting on the Municipal Pension Board of Trustees.

I'm certain being a pension Board Trustee is not something this young employee expects. It was certainly not what I envisioned for myself when I became a plan member in 1977. As my career progressed I became the executive director of the Union of British Columbia Municipalities. In 1988, I became involved in pension matters and have been ever since.

Working in pensions is not a path I anticipated but I wouldn't change a thing. I am very proud of the work I do. And while I am still a member of the Municipal Board, I do plan to retire from my duties in the next few years. The thought of leaving the Board makes me consider who will take my place. What advice I would give to our young employee if she were to become a Trustee?

I would tell her that being a Trustee means having good judgement, good math and critical thinking skills, compassion and a strong sense of fairness. But there is one concept that needs to play a part in everything a Trustee does: **take a long-term view**.

But what does this mean? Taking a long-term view means different things to different people involved with the Plan. To the **actuary**, taking a long-term view spans decades: about 50 years. It involves an almost forensic examination of all the economic and demographic factors that affect the Plan in order to estimate future liabilities.

The Municipal Pension Plan is currently forecasted to pay pensions well into the 22nd century.

To the Plan's **investment manager**, British Columbia Investment Management Corporation—bcIMC—a long-term view is sectioned into five-to-ten-year goals for the Plan's finances. The Board works with bcIMC to ensure the Plan's investments bring stable, consistent returns.

To **retired members**, a long-term view is really another question: is their pension promise being fulfilled? They contributed to the Plan throughout their working years. If they managed their personal finances carefully to be combined with their pension income, these retirees become examples of how retirement should be for EVERY Canadian worker: stable and secure. Helping retired plan members achieve this is a huge part of a Trustee's responsibilities.

New members and working members have seen the world change in remarkable ways in the past decade. Global markets are volatile and growth has slowed. It's easy for some to scan these things and say "the Plan won't be there when I retire." But the Plan will be there for them. That's the pension promise.

Seventy-five per cent of the cost of pensions is funded by investment income, and the remaining 25 per cent is funded by employer and member contributions.

The Plan has a strong governance structure and is designed to adapt to ensure those contributing today have a secure tomorrow. The promise the Plan makes to young workers is just as important as the one made to the retirees.

Finally, to the **Municipal Pension Board of Trustees**, taking a long-term view means understanding all these perspectives and taking them into consideration with every decision they make.

With all of these perspectives in mind, being a Trustee may seem like a daunting task. But it's important to note—to this future Trustee starting her career, and to those reading this message—there is a lot of good news. The Municipal Pension Plan fund is 96 per cent funded and in 2012 was $31 billion. When we entered joint trusteeship in 2001 the Plan's fund was $15 billion, so the fund has more than doubled in value in 11 years. The Plan is doing very well and remains the sixth-largest pension fund in Canada. There is a lot to be proud of and to look forward to.

As our future Trustee starts her new position, the Plan may not matter to her yet. But as the years pass and she advances in her career, her pension will become more and more important. She will want to know how it works, where the money comes from, how it's invested and what the future looks like. The world and the challenges that face her could be very different than they are today. But whatever circumstances exist when she joins the Municipal Pension Board of Trustees, the basic attributes of being a good Trustee will not change. If she embraces the concept of taking a long-term view, and exercises good judgement, fairness and compassion in all of her duties, she will succeed as a Trustee and help the Municipal Pension Plan continue to thrive.

In 2012 the Municipal Pension Plan fund was $31 billion. When the Plan entered joint trusteeship in 2001 the Plan's fund was $15 billion, so the fund has doubled in value in eleven years.

Investment Highlights

Interview with Robert Hobson

Plan Investments in 2012: learn more from Trustee Robert Hobson

Robert Hobson is the Chair of the Municipal Pension Plan's Investment Committee. He is a professional planner and administrator who was appointed to the Board of Trustees in 2006 by the Union of British Columbia Municipalities (UBCM). Robert served as a director of the UBCM for 13 years and as president in 2008/09.

Robert is a long-standing member of Kelowna City Council and Regional District of Central Okanagan. He is currently chair of the Central Okanagan Regional Hospital District and a trustee of the Municipal Finance Authority.

What does this mean? If you want to know how to find a good Okanagan winery Robert can tell you, and he's the perfect person to ask about how the Municipal Pension Plan's finances fared in 2012.

Municipal Plan staff caught up with Robert to find out the latest details on how the Plan's investments performed in 2012.

What was the 2012 return on plan investments?

Our return was 10.3 per cent.

Is 10.3 per cent a good return?

Yes! It beats the market benchmark of 8.2 per cent. The Board is pleased with this result.

How much money is in the Plan now?

We went from $28 billion in 2011 to $31 billion in 2012.

Is this a notable increase?

I believe it is, especially when you look at this increase in relation to our investment history. When the Municipal Pension Plan entered joint trusteeship in 2001 the Pension Fund was $15 billion. Reaching $31 billion means the Pension Fund has more than doubled in value in 11 years.

Good things take time

The revised policy asset mix requires about 10 per cent of the plan's investment portfolio to be redistributed from more traditional assets like bonds and stocks to private market assets like real estate and infrastructure. This transition may take up to five years.

Want more information?

The Municipal Pension Board's asset mix and investment strategy is outlined in the Statement of Investment Policies and Procedures. *This document gives the British Columbia Investment Management Corporation (bcIMC), the Plan's investment manager, strategic direction about the mix of assets the Plan will hold.*

Robert, you are the Chair of the Plan's Investment Committee. What do you think is important for plan members and employers to know about the global investment market?
The global financial crisis of 2008 took a bite out of plan investments, just like it did for every other pension plan. But the Municipal Pension Plan weathered the storm relatively well because of the way we invest.

That said, markets are recovering in what appears to be a new low-investment return environment. We on the Board have consulted extensively with British Columbia Investment Management Corporation (bcIMC) and the Plan's actuary on ways to improve our investment returns without putting the plan funds at unnecessary risk.

So what did the Board do?
In 2012 we created a revised policy asset mix. We did this because we felt that to reach the Plan's long-term funding goals there needed to be a shift in plan assets. This asset mix puts greater focus on long-term investments like real estate and infrastructure, which are expected to grow in value and provide a stable cash flow. This will help fund future pension payments.

The news has been full of stories about the global investment markets experiencing a lot of ups and downs. How did this affect plan investments in 2012?
First, a bit of background: the year began with good economic news globally and positive stock market returns. As the year progressed, investor attention focused on two issues that affected markets in a big way:

- the growing European government debt crisis, and
- the consequences of the financial and political problems in the United States.

The response by banks around the world to stimulate economic growth and stabilize global financial markets contributed to strong stock market returns by the end of 2012.

Here's where we are today: the Municipal Pension Plan's healthy investment results were achieved despite the uneven recovery in global economic growth. The reason the Plan did well in 2012 was the diversified asset mix described in our investment policy. For example, while bonds didn't do so well, stocks and real estate did very well

Last question. Why is this important for plan members to know how plan investments are doing?
Investment income finances about 75 per cent of the cost of pensions. The purpose of investing is to build on member and employer contributions, to ensure enough money to pay current and future pensions.

Investment Speak

What is infrustructure?

Infrastructure means the essential physical systems of a business or nation. Transportation, communication, sewage, water and electric systems are all examples of infrastructure. These systems tend to be large-scale investments, and they are vital to a region's economic development and prosperity.

What is the Municipal Pension Plan's *Statement of Investment Policies and Procedures*?

Every three years following the actuarial valuation, the Board reviews and adjusts the Plan's asset allocation, taking into account the timing and amount of projected pension payments and the risk and return characteristics of the asset classes. The result is a high-level investment strategy, the *Statement of Investment Policies and Procedures*, or SIPP. It includes statements of investment beliefs and performance objectives, and is responsible for day-to-day investment of the pension fund, within these guidelines.

Investment Holdings

Investing at Home: Real Estate Holdings in Canada

Real estate is an important part of the Plan's portfolio. It provides a steady income stream with opportunities for long-term growth through appreciation. The British Columbia Investment Management Corporation's program of land acquisitions gives the Plan flexibility to expand its development projects when other buying opportunities become less attractive. Large-scale, mixed-use development projects offer the Plan a higher potential for investment returns.

The Plan's portfolio includes real estate across Canada. Here are a few examples from 2012:

Vancouver

745 Thurlow Street—A 25 storey office tower is under construction in downtown Vancouver on the edge of the trendy Coal Harbour neighbourhood. Building completion is expected in 2015. This building is located in Vancouver's financial district near popular Robson Street and, as of May 2013, is already 74 per cent pre-leased. It is designed to a LEED green-building rating system (for assessment of sustainable design) "Core and Shell" Gold standard.

Toronto

A new development site in the up and coming Southcore neighbourhood, close to Toronto's financial district.

This site consists of three buildings:

120 Bremner Blvd—This is a 30-storey office tower. It is under construction and expected to be completed in 2014. It is already 50 per cent pre-leased. bcIMC is targeting a LEED Gold certification.

PWC Tower—This is a 26-storey office tower. This building was completed in January 2012 and is 97.7 per cent leased. The lead tenant is PriceWaterhouseCoopers, the world's largest professional services firm. The building is targeted to receive LEED Gold certification.

75 Lower Simcoe Street—This four-star Delta flagship hotel will have 567 rooms. It is expected to be completed in 2014. It has been designed with the latest in sustainable features including:

- heat-recovery ventilation
- low-flow fixtures
- Smartcard-controlled room lighting
- green roofs throughout the building, and
- an urban forest which will create a unique green space with forested walkways and gardens.

Investing abroad: Global Infrastructure Investments in 2012

Infrastructure investments have characteristics similar to those of real estate, providing a steady income stream with opportunity for long-term capital growth through appreciation.

Brazil

Company: OHL Brasil

Infrastructure Investment: Toll-Road Operations

The Plan is invested in Brazil's largest toll-road operator, OHL Brasil, in partnership with a large Spanish toll-road operator and other investors. As a company, OHL Brasil operates across the southern region of Brazil. It has a long and successful history operating highways and managing capital projects in the region, making it a high quality infrastructure operator in one of the world fastest growing economies.

As Brazil's economy continues to expand, the demand for vehicles and paved roads is expected to increase. OHL Brasil is well positioned to take advantage of this large growth opportunity, and bring

state-of the art European standards in highway construction, operation and maintenance to this region.

This investment allows the Plan to gain more exposure to fast-growing markets through investments in core infrastructure assets that provide the Plan with stable and growing dividends for up to 25 years.

Germany

Company: Open Grid Europe

Infrastructure Investment: Gas Transmission

The Plan, along with other investors, is invested in Open Grid Europe, a gas transmission company in Germany. Open Grid Europe is the owner and operator of the longest regulated supra-regional gas transmission network in Germany, with approximately 12,000 kilometres of gas pipeline and 27 compressor stations.

Open Grid Europe transports almost 62.5 billion cubic metres of natural gas annually, (approximately 70 per cent of Germany's total national shipping volume) and serves 450 national and international customers.

Open Grid Europe's pipeline network spans the entire country and is a key hub for pan-European gas flows, as well as domestic transmission for natural gas shipments from Russia and Norway. Open Grid Europe represents the ultimate core strategic infrastructure asset, not just in Germany but for the broader European economy.

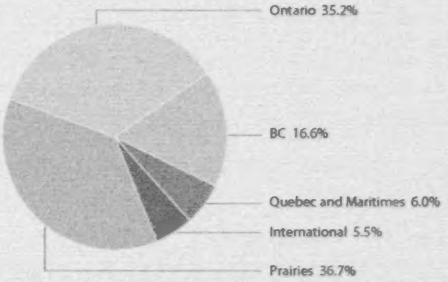
Germany is Europe's largest and strongest economy with a well-developed, reliable regulatory framework.

Investment Speak

Did you know?

LEED (Leadership in Energy & Environmental Design) is an internationally recognized green building certification program which provides third-party verification that a building was designed and built using strategies intended to improve energy savings, water efficiency, greenhouse gas emissions reduction and indoor air quality."Core and Shell" addresses the base building components, including heating, ventilation, air conditioning and structure.

Real Estate by Location
as at December 31, 2012



This chart shows the location of the real estate investment as a percentage of the total fair value.

Australia

Company: Dalrymple Bay Coal Terminal

Infrastructure Investment: Coal Export Facility

In 2010, the Plan invested in Dalrymple Bay Coal Terminal (DBCT), a coal export terminal off of Australia's northeastern coast. DBCT was established as a common user port facility and began operations in 1983. This facility exports metallurgical and thermal coal mined from the Bowen Basin region of Queensland, Australia. The Bowen Basin region is an established major supplier of low-cost, high-quality coal and has the capacity to export at an internationally competitive price. There has been significant expansion in the Bowen Basin coal fields in recent years, particularly due to its cost and quality advantages over competing suppliers and product types.

As a port facility, DBCT has benefited from its competitive location and strong growth of the Bowen Basin coal fields. Following the completion of a major expansion in June 2009, DBCT has become Queensland's largest coal export terminal and is the only privately owned and operated terminal in Queensland that offers multiple third-party access. DBCT's revenue is underpinned by a regulated-return model, backed by long-term take-or-pay contracts with some of the world's largest mining companies. This allows the business to generate strong, stable and low-risk cash flows that are well positioned for future growth.

Investing Responsibly

The Plan Supports Responsible Investment

Responsible investment plays an important role in the management of the Plan's assets. The philosophy behind responsible investing is that well-governed companies, who are responsive to environmental and social issues, will positively affect long-term investment performance and mitigate risk for the Plan.

The Municipal Pension Board of Trustees, through the activities of bcIMC, is proactive in engaging with companies to implement good governance practices and operate in an environmentally and socially responsible way.

Implementing changes also occurs through collaboration with other investors and organizations such as the Canadian Coalition for Good Governance, the Carbon Disclosure Project, Principles for Responsible Investment and the Investor Network on Climate Change.

Learn more about bcIMC's responsible investment activities here: **www.bcimc.com/ResponsibleInvesting**.

Did you know?

The Principles for Responsible Investment (PRI) is supported by the United Nations.

The Plan does not invest directly in any publicly-traded corporation. The Plan's $31 billion is invested as units in pooled funds managed by bcIMC. These pools are fully diversified and invest in all sectors of the Canadian financial markets and many countries around the globe.

Investment Speak

What is PRI?

PRI stands for Principles for Responsible Investment. The PRI is an international network of investors working together to put responsible investing principles into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these into their investment decision making and ownership practices.

Both the Municipal Pension Board of Trustees and bcIMC are signatories to the PRI.

Market Outlook

Short-term market outlook

as at May 2013

Key points to know when looking forward:

- With the backdrop of increased economic and financial stability, the early part of 2013 saw substantial gains across global stock markets
- In the U.S., there were signs of improvement in housing, business investment and employment
- With inflation below two per cent in Canada and the U.S., and economies operating below capacity, their central banks are keeping interest rates low in order to stimulate economic growth
- Central banks in Europe, China, Brazil and India have also implemented policies to stimulate economic growth
- Risks include the poor financial health of some European countries, the longer-term financial stability of the U.S. and Japan and an economic slowdown in China. All of these risks could dampen world economic growth

Investment Speak

Who is bcIMC?

Based in Victoria, BC, the British Columbia Investment Management Corporation (bcIMC) is one of Canada's largest institutional investors within the global capital markets. bcIMC invests on behalf of public sector clients in British Columbia, including the Municipal Pension Plan.

bcIMC manages a globally diversified investment portfolio of about $103 billion (as at March 31, 2013). Supported by industry-leading expertise, bcIMC invests in all major asset classes: fixed income, mortgages, public equities, private equity, real estate and infrastructure.

Cost savings for the Plan

Managing investment costs is an important part of bcIMC's work for the Plan, as these costs continue to be significantly below those of other investment managers. This is because bcIMC operates on a cost-recovery, not-for-profit basis and its large asset size provides access to substantial economies of scale.

Did you know?

The Plan has a long-term investment strategy that is intended to withstand short-term market volatility. The Board and bcIMC are focused on holding a well-diversified portfolio that follows a disciplined, long-term approach to managing the Plan's investments.

By carefully managing the Plan's investment management expenses, a greater proportion of investment returns pass through to the Plan and contribute to its long-term sustainability.

Plan Details

Contributions

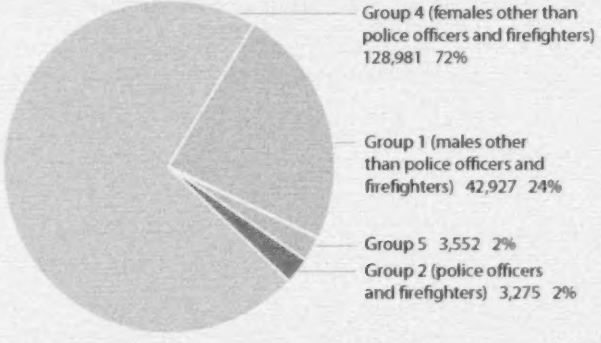
Plan members and employers both pay contributions to fund future pension benefits. Membership in the Plan is divided into separate benefit groups, some with their own accrual rates and/or earliest retirement ages.

Contribution rates are set by the Board and based on an independent valuation conducted by the Plan's actuary. The valuation occurs every three years. This ensures there is always enough money in the pension fund to pay all members' basic pensions for many years into the future.

Employers are assigned contribution rates annually based on their employee group classification (Groups 1–5) and the demographics of their respective employee populations. An individual employer's blended rate can increase or decrease from year to year, depending on their employees' ages, genders and salaries.

If a contribution rate increase is required, the Joint Trust Agreement requires that all contribution rate increases be split equally between members and employers. This means that if contribution rates are required to increase by one per cent of salary, the rates will increase by 0.5 per cent of salary for plan members and 0.5 per cent of salary for plan employers.

Active Members by Group
as at December 31, 2012


Group 4 (females other than police officers and firefighters) 128,981 72%
Group 1 (males other than police officers and firefighters) 42,927 24%
Group 5 3,552 2%
Group 2 (police officers and firefighters) 3,275 2%

Note: There are also three Group 3 females in a special closed group.

This chart shows that groups 1 and 4 make up the majority of all plan members.

Once a member terminates membership, retires, reaches the latest retirement age of 71 or accrues 35 years of pensionable service, they no longer make contributions to the Plan.

At the end of 2012, members in Group 1, 2, 3 and 4 were contributing 7.8 per cent of salary up to and including the *Income Tax Act*'s year's maximum pensionable earnings (YMPE) ($50,100 in 2012); and 9.3 per cent of salary above that amount.

Group 5 is the newest member Group, effective January 1, 2010. Participation is limited to public safety workers (male and female). Public safety occupations are police and firefighters.

In addition to an earlier retirement age, Group 5 members also have a higher pension accrual formula. Group 5 members of the Plan contributed 9.74 per cent of salary up to and including the YMPE and 11.24 per cent of salary above that amount.

Who Are the Member Groups in MPP?

The Municipal Pension Plan categorizes members into five member groups:

Group 1—males who do not work in public safety occupations
Group 2—male and female police officers and firefighters, other than members of Group 5 (public safety)
Group 3—females whose last contribution to the pension fund was before April 1, 1971, and were not in a public safety occupation
Group 4—females who do not work in public safety occupations or are in Group 3
Group 5—male and female police officers and firefighters, other than members of Group 2 (public safety)

Average Employer Contribution Rates by Sector

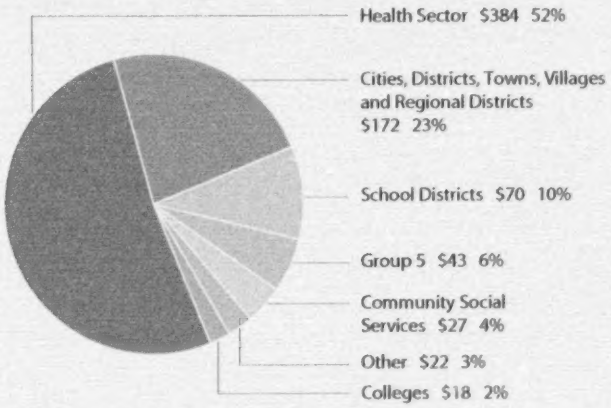
as at December 31, 2012

	Number of Employers	Average Rate (%)
Cities, Districts, Towns, Villages and Regional Districts	202	9.41
Health Sector	249	9.45
School Districts	60	9.76
Colleges	22	8.78
Group 5	32	15.05
Community Social Services	205	9.12
Other	139	9.54
Total	**909**	**9.57**

This table shows the number of employers and average contribution rates by sector.

Total Regular Contributions by Employer Sector

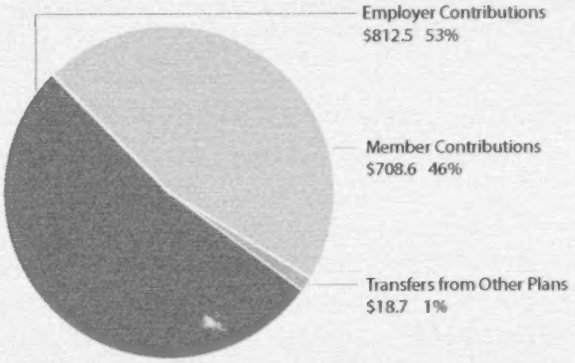
year ended December 31, 2012
($ Millions)


Health Sector $384 52%
Cities, Districts, Towns, Villages and Regional Districts $172 23%
School Districts $70 10%
Group 5 $43 6%
Community Social Services $27 4%
Other $22 3%
Colleges $18 2%

The health and municipal sectors make up about 80 per cent of contributions from all employers.

Contribution Revenue

year ended December 31, 2012
($ Millions)



This chart shows that employer and member contributions make up the majority of all contributions to the Plan.

Contributions

as at December 31
($ Millions)

This shows member and employer contributions have essentially doubled in this period. Employer contributions have increased by 104 per cent, member contributions by 97 per cent.

Membership

The Municipal Pension Plan had 178,738 active members who worked for 909 employers as at December 31, 2012. The total membership is 282,463.

There are three types of members in the Municipal Pension Plan:

Active—those who are currently contributing, are on a leave of absence or are receiving benefits from an approved long-term disability plan. There are 178,738 active plan members, a 1.6 per cent increase from 2011.

Inactive—those who have terminated their employment but have left their contributions in the Plan. They may or may not be eligible for a pension in the future. There are 32,669 inactive plan members, a 4.1 per cent increase from 2011.

Retired—those who are receiving a pension, including a survivor or disability pension. There are 71,056 retired plan members, a 6.1 per cent increase from 2011. The triennial actuarial valuation considers these changing demographics as part of determining the overall funded status of the Plan. The actuarial valuation also looks at age and gender as well as other demographic and economic factors that affect the projected cost of pensions. Results of the 2012 valuation will be announced in September 2013.

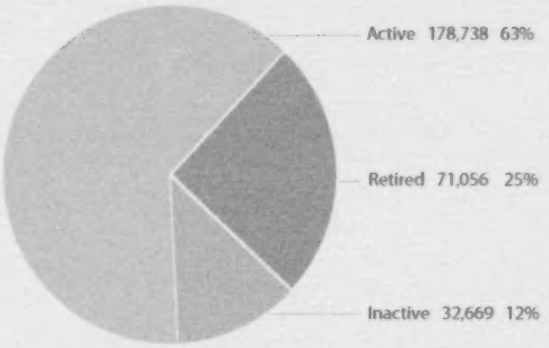
Active Member Profile by Gender

as at December 31, 2012

This chart shows the gender makeup of the Plan.

Membership Profile

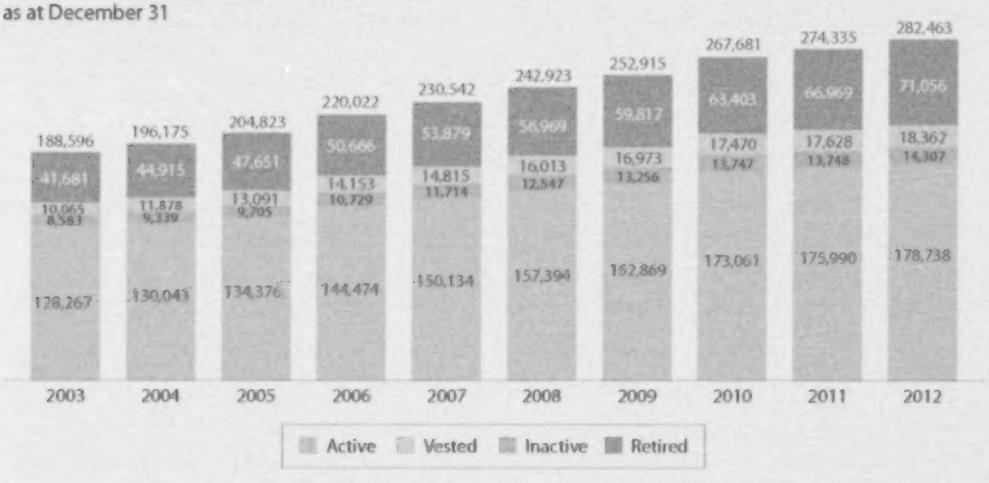
as at December 31, 2012



This chart shows how many members are in the Plan and their group's percentage of the Plan as a whole.

Number of Members 2003–2012

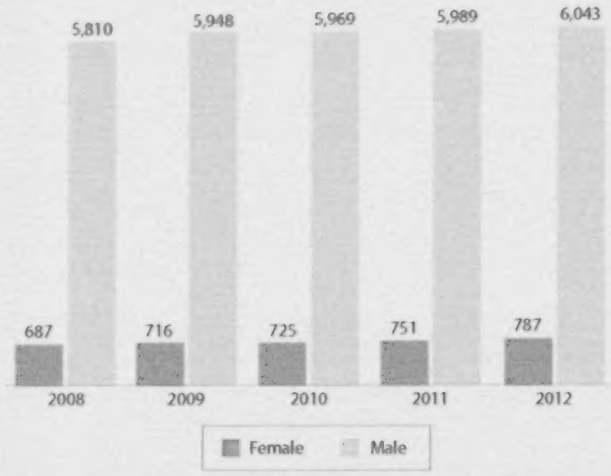
as at December 31



This chart shows the growth of the four types of members—active, vested, inactive and retired—between 2003 and 2012.

Active Members

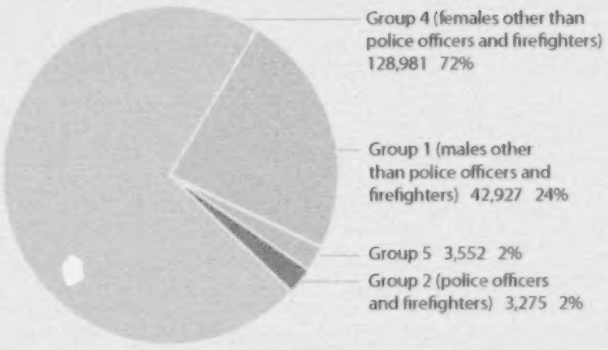
normal retirement age 60
as at December 31



This chart shows the number of active members with a normal retirement age of 60, normally police officers and firefighters. This graph clearly shows the majority of members in this segment are male.

Active Members by Group

as at December 31, 2012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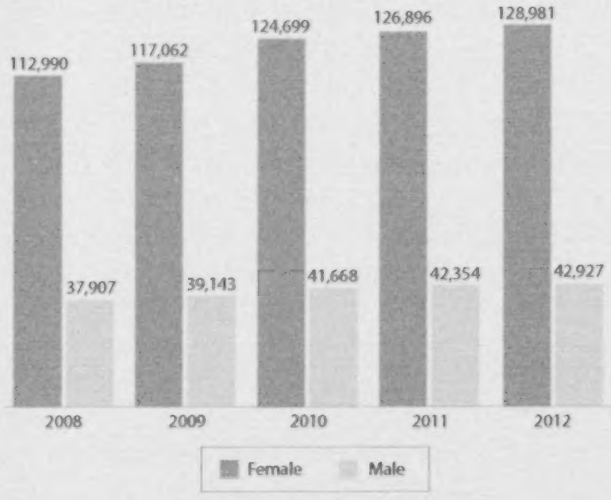
Group 2 (police officers and firefighters) 3,275 2%

Note: There are also three Group 3 females in a special closed group.

This chart shows that groups 1 and 4 make up the majority of all plan members.

Active Members

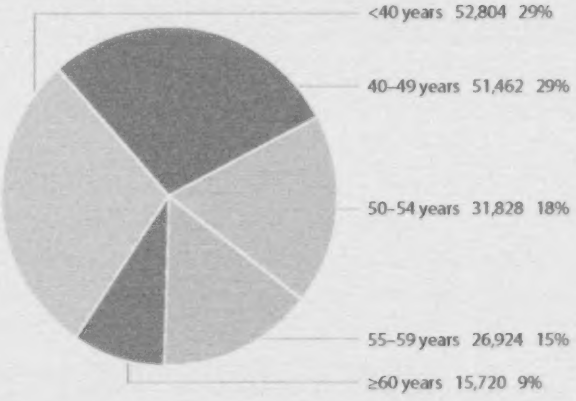
normal retirement age 65
as at December 31



This chart shows the number of active members with a normal retirement age of 65. This graph clearly shows the majority of members in this segment are female.

Age Profile of Active Members

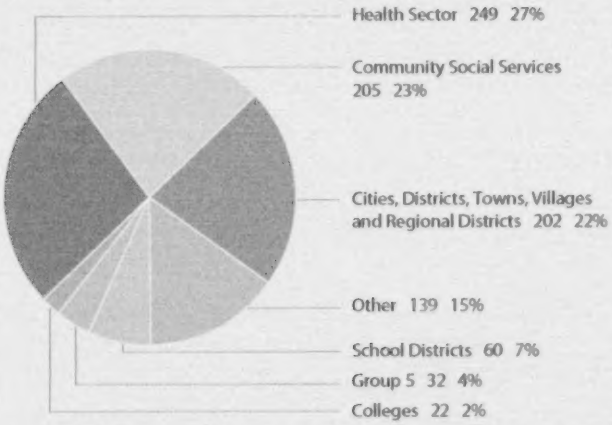
as at December 31, 2012



If a plan's demographic includes a high proportion of older members, this can mean challenges for the plan because more people will be retiring sooner rather than later.

Municipal Pension Plan Employers

as at December 31, 2012


Health Sector 249 27%
Community Social Services 205 23%
Cities, Districts, Towns, Villages and Regional Districts 202 22%
Other 139 15%
School Districts 60 7%
Group 5 32 4%
Colleges 22 2%

This chart shows the breadth of plan employers. The Municipal Pension Plan includes members in many different sectors throughout the province.

Number of Members

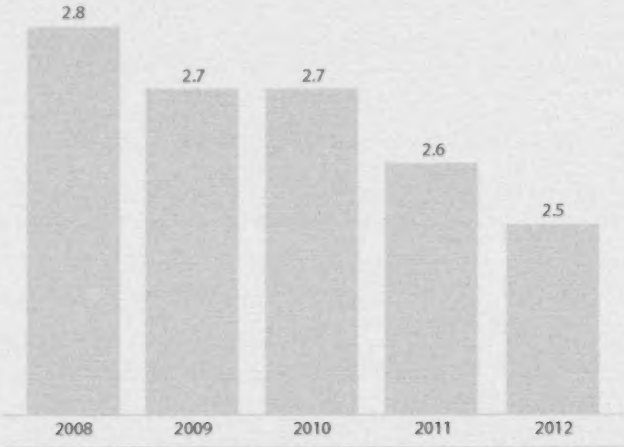
as at December 31

	Active	Inactive, Non-Vested	Inactive, Vested and Deferred	Retired
2012	178,738	14,307	18,362	71,056
2011	175,990	13,748	17,628	66,969
2010	173,061	13,747	17,470	63,403
2009	162,869	13,256	16,973	59,817
2008	157,394	12,547	16,013	56,969
2007	150,134	11,714	14,815	53,879
2006	144,474	10,729	14,153	50,666
2005	134,376	9,705	13,091	47,651
2004	130,043	9,339	11,878	44,915
2003	128,267	8,583	10,065	41,681

This table shows how the Plan is growing in the different member groups.

Ratio of Active Members to Retired Members

as at December 31



This chart shows that the number of retired members is slowly catching up to the number of active members. The smaller the ratio gets, the less flexible the Plan's ability to manage poor investment returns.

Plan Benefits

Plan benefits are defined by the Plan Rules made under the authority of the Joint Trust Agreement.

Basic Pension

The basic pension benefit is based on the years of pensionable service the member has accrued in the Plan and the member's highest average salary (highest 60 months, not necessarily the last 60 months).

The Plan provides entitlement to a pension benefit after two years of contributory service, as well as survivor and disability benefits.

As at December 31, 2012, the Plan provided pensions to 71,056 retired members, an increase of 6.1 per cent from 2011.

The pension represents a valuable asset for retired members, as shown by the value of pensions granted in 2012.

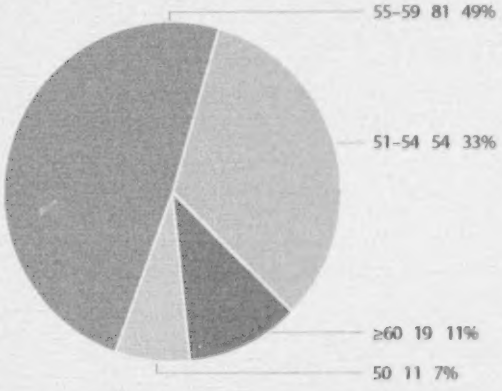
Cost-of-living Adjustments (non-guaranteed)

Cost-of-living adjustments (COLA) are a non-guaranteed supplement to the basic lifetime pension. These adjustments cannot exceed the annual increase in the Consumer Price Index (CPI), nor can they exceed the amount of money in the Plan's Inflation Adjustment Account. The Board of Trustees annually considers all relevant factors to determine if a cost-of-living adjustment will be granted.

On January 1, 2012, retired members received a COLA equal to the full increase in the CPI (measured from September to September of the preceding year), an increase of 3.2 per cent. The Board monitors the Plan's ability to grant any future indexing. Once granted, the cost-of-living adjustment becomes part of the basic lifetime pension.

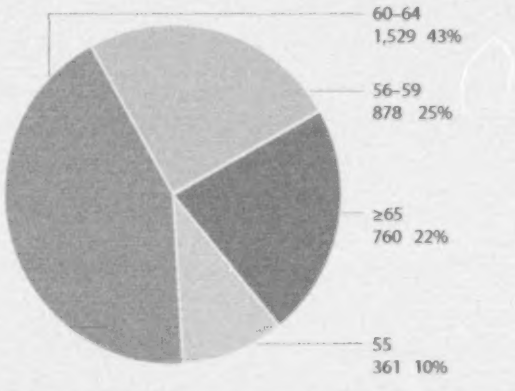
Over time, cost-of-living adjustments can make up a significant portion of a basic lifetime pension. The Effect of Cost-of-Living Adjustments over 20 Years (1993-2012) chart (below) illustrates how cost-of-living adjustments have affected pensions over the past 20 years

Percentage of New Regular Pensions (Total 165)
by age at retirement (regular retirement age 60)
year ended December 31, 2012



This chart shows the age groups of members with a normal retirement age of 60 who retired in 2012.

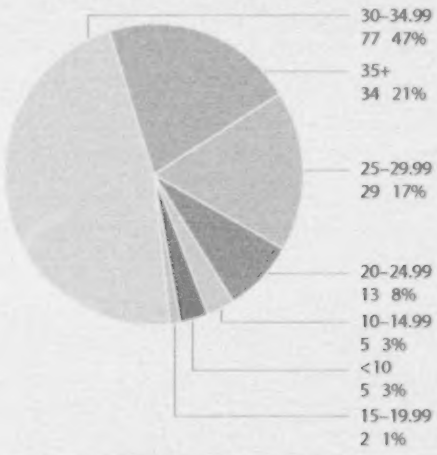
Percentage of New Regular Pensions (Total 3,528)
by age at retirement (regular retirement age 65)
year ended December 31, 2012



This chart shows the age groups of members with a normal retirement age of 65 who retired in 2012.

New Regular Pensions (Total 165)

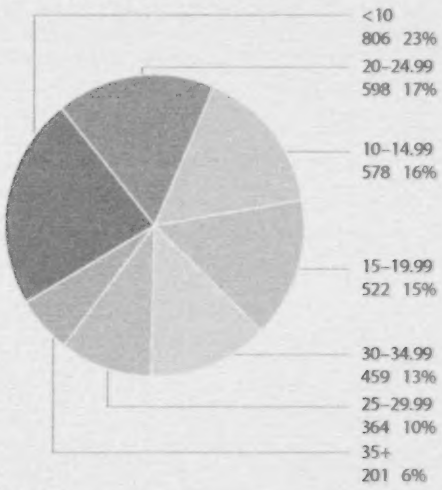
by years of service (regular retirement age 60)
year ended December 31, 2012



This chart shows that the largest group of members with a normal retirement age of 60 receiving new pensions in 2012 had more than 30 years' service.

New Regular Pensions (Total 3,528)

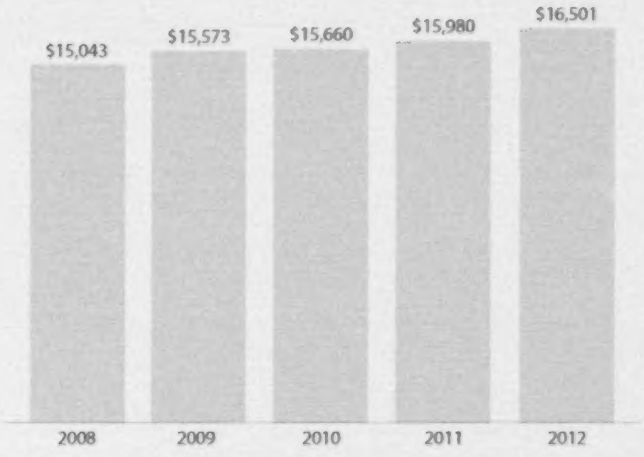
by years of service (regular retirement age 65)
year ended December 31, 2012



This chart shows that the largest group of members with a normal retirement age of 65 receiving new pensions in 2012 had fewer than 10 years' service.

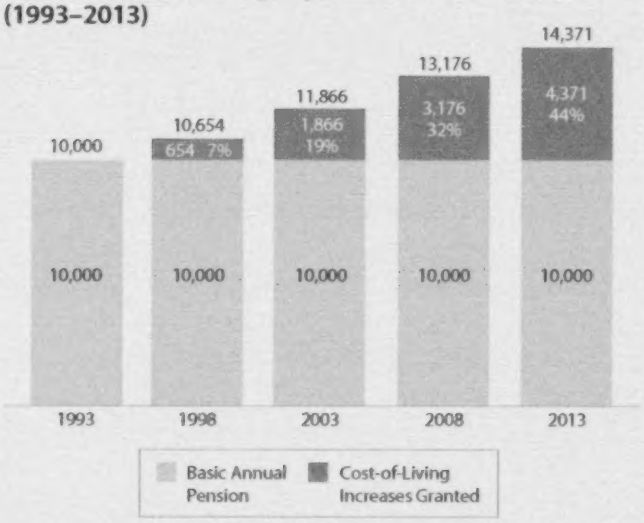
Average Pension in Pay

as at December 31



This chart shows how the average annual pension has increased since 2008.

Effect of Cost-of-Living Adjustments over 20 Years (1993–2013)



This chart shows how indexing, over time, helps retirees' pensions keep up with inflation.

New Regular Pensions (by Age at Retirement)

Groups 1, 3 and 4 (regular retirement age 65)
subdivided by years of service
as at December 31, 2012

Years of Service	55	56–59	60–64	≥ 65	Total
<10	49	150	333	274	806
10 to 14.99	60	114	259	145	578
15 to 19.99	55	97	263	107	522
20 to 24.99	61	122	302	113	598
25 to 29.99	37	102	175	50	364
30 to 34.99	49	233	133	44	459
35 and up	50	60	64	27	201
Total	**361**	**878**	**1,529**	**760**	**3,528**
Average Service	21	21	18	15	18
Average Age at Retirement					**61**

This table is important because it shows the largest segment of people in 2012 receiving pensions from the Municipal Pension Plan in these groups are those with fewer than 10 years' service in the Plan.

New Regular Pensions (by Age at Retirement)

Groups 2 and 5 (regular retirement age 60)
subdivided by years of service
as at December 31, 2012

Years of Service	50	51–54	55–59	≥ 60	Total
<10	—	2	1	2	5
10 to 14.99	—	1	4	—	5
15 to 19.99	—	1	1	—	2
20 to 24.99	2	3	7	1	13
25 to 29.99	2	15	10	2	29
30 to 34.99	7	32	29	9	77
35 and up	—	—	29	5	34
Total	**11**	**54**	**81**	**19**	**165**
Average Service	28	28	30	29	29
Average Age at Retirement					**56**

This table is important because it shows the largest group of people in 2012 receiving pensions from the Municipal Pension Plan in these groups are those with more than 30 years' service in the Plan.

Average Value of New Regular Pensions

as at December 31, 2012

Years of Service	Number of New Pensions	Average Annual Salary Base ($)	Average Annual Pension ($)	Average Present Value of Pensions ($)	Total Present Value of Pensions ($ Millions)
<10	811	54,000	5,400	77,000	62.4
10 to 14.99	583	56,000	12,100	177,000	103.2
15 to 19.99	524	58,000	17,800	271,000	142.0
20 to 24.99	611	63,000	24,600	389,000	237.7
25 to 29.99	393	67,000	33,200	532,000	209.1
30 to 34.99	536	71,000	43,200	722,000	387.0
35 and up	235	71,000	47,800	776,000	182.4
Total	**3,693**	**n/a**	**n/a**	**n/a**	**1,323.8**
Average for New Regular Pensions	**n/a**	**61,000**	**22,500**	**353,000**	**n/a**

This table shows the number of new pensions in 2012, subdivided by years of service. It also shows average pensions and the present value of pensions.

Pensions in Pay 2003–2012

year ended December 31

	Total New Pensions	Terminations	Pensions in Force	Basic Pension Payments ($ Millions)	Cost-of-Living Adjustment Payments ($ Millions)	Total Pension Payments ($ Millions)
2012	5,062	975	71,056	963.7	175.1	1,138.8
2011	4,686	1,120	66,969	891.8	149.9	1,041.7
2010	4,508	922	63,403	818.4	146.4	964.8
2009	3,782	934	59,817	756.6	152.7	909.3
2008	4,028	938	56,969	702.5	131.3	833.8
2007	4,161	948	53,879	644.2	118.3	762.5
2006	3,745	730	50,666	592.0	119.1	711.1
2005	3,438	702	47,651	544.5	102.5	647.0
2004	3,937	703	44,915	497.6	96.1	593.7
2003	3,521	772	41,681	436.1	89.0	525.1

This table is important because it shows that the number of new pensions issued each year has increased since 2003, though the economic downturn in 2008 caused a two-year dip in the number of members retiring and receiving a new pension.

New Pensions 2003–2012

year ended December 31

	Regular*	Post-Retirement Limited Member*	Pre-Retirement Limited Member*	Disability	Survivor	Deferred	Long-Term Disability to Pension	Total
2012	3,693	19	37	8	64	650	591	5,062
2011	3,509	-	-	7	71	596	503	4,686
2010	3,350	-	-	6	67	537	548	4,508
2009	2,744	-	-	9	79	543	407	3,782
2008	3,145	-	-	13	72	470	328	4,028
2007	3,136	-	-	23	77	467	458	4,161
2006	2,851	-	-	13	83	410	388	3,745
2005	2,497	-	-	28	68	394	451	3,438
2004	3,074	-	-	22	72	316	453	3,937
2003	2,925	-	-	31	52	224	289	3,521

* Prior to 2012 new limited members were included as part of new regular pensions.

This table shows the number and type of new pensions issued each year since 2003.

Plan Rule Changes

30-Day Extension to the Purchase of Service Deadline & Definition of "Continuous Employment"

Municipal Pension Plan Rule Amendment No. 34

One of the features of the Municipal Pension Plan is the option for members to increase their future pension benefit by purchasing service for periods when they did not contribute to the Plan. For example, if they took time off for parental leave they did not contribute toward their pension at that time. However, members can make up these contributions at a later date so that their pension at retirement improves. This is known as "purchasing service." Purchasing service must be completed within five years of the leave ending.

Highlights

Effective March 28, 2012—
the definition in the Plan Rules of continuous employment has been clarified to make it easier for employers to determine whether employees are eligible to join the Municipal Pension Plan.

With this new amendment, the option to purchase service is still available and the five-year deadline still applies. The difference is that members now have 30 days after their employment ends to make an application to purchase service (subject to the five-year deadline). Previously they had to apply for it before their employment ended.

This amendment became effective January 1, 2013.

Member Rights and Employer Obligations in the Case of Workforce Restructuring or Successor Employer Situations

Municipal Pension Plan Rule Amendment No. 35

This amendment adds a new section to the Plan Rules about the transfer of active members between plan employers. The purpose of the amendment is to ensure members do not lose entitlements because their employer has been restructured or sold. It also makes sure the Plan continues to receive contributions at the appropriate levels.

This amendment became effective January 1, 2013.

Who We Are

Plan Governance

The Municipal Pension Board of Trustees oversees the governance of the Municipal Pension Plan, establishes the Plan's investment policy, monitors investment performance, interprets and amends the Plan Rules, and communicates with plan members, employers and other stakeholders.

The Board is responsible for ensuring there is an actuarial valuation at least every three years, that there is an annual financial audit and for reporting on the Plan's actuarial, financial and operational status to the Plan Partners, members and employers.

The Board has established an Appeals Panel to consider appeals by members and others who dispute the way in which the Plan's administrative agent has administered the Plan Rules. See the Appeals Process brochure under Board Publications at the plan website for more information.

The Board holds at least three meetings per year, with additional meetings arranged when issues arise that require Board attention. Highlights from all Board meetings are posted on the plan website.

The Trustees

The Municipal Pension Board of Trustees (Board) is appointed by the Plan Employer Partners (the Province of British Columbia and the Union of British Columbia Municipalities) and the Plan Member Partner (the Municipal Employees' Pension Committee) as well as by other appointing authorities. This joint governance by members and employers is called joint trusteeship.

The Joint Trust Agreement can be found on our website.

Richard Taylor, 2012 Chair

Richard Taylor is a founding Trustee and was appointed by the Union of British Columbia Municipalities (UBCM) in 2001. He came to the Board through his position as executive director of UBCM, a position he held from 1985 to 2007. Since 2009, Richard has served two terms as Chair and two terms as Vice-Chair of the Municipal Pension Board of Trustees.

He has been directly involved in pension matters since 1988, including the original UBCM Advisory Committee, the Superannuation Commission Advisory Committee of the 1990s and as UBCM's representative during the Joint Trust Agreement negotiation. He is also a director and past chair of both Pacific Blue Cross and the BC Pension Corporation Board.

Richard holds a master of science in community and regional planning. He has held public service roles at the local government level for more than 30 years.

Brendan Dick, 2012 Vice Chair

Brendan Dick is the director of pensions and benefits for the Hospital Employees' Union, which appointed him to the Board in 2003. He has sat on the Interplan Audit Committee for more than 10 years. He is co-chair of the Canadian Blood Services (CBS) defined benefit pension plan and has been a CBS trustee since 2005. Brendan is also a past president of the Hospital Employees' Staff Union.

Brendan has completed the Advanced Trustee Management Standards Program and the Responsible Trustee Program through the Sauder School of Business. Since 2007, Brendan has served three terms as Chair and three terms as Vice-Chair of the Board.

Primary Trustees

Ken Bayne

Ken Bayne recently retired from the City of Vancouver after 28 years in senior roles in the Finance department and four years as general manager, Business Planning and Services with responsibility for Real Estate, Facilities, the 311 Call Centre and for the city's business planning. Ken has been active in the Government Finance Officers Association of BC, including as a member of the organization's pension committee.

Ken was appointed to the Board of Trustees in 2001 by the provincial government and the Union of British Columbia Municipalities and holds a position reserved for non-union members of the Municipal Pension Plan. Between 2003 and 2008, Ken served three terms as Chair and two as Vice-Chair of the Board. He holds a bachelor of arts in political science and a master of science in business administration from the University of British Columbia.

Dennis Blatchford

Dennis Blatchford is the pensions and benefits advocate for the Health Sciences Association of BC (HSA). Prior to joining HSA in 1997, Dennis was a director for the BC Federation of Labour, working in the areas of health labour relations, human rights and disability advocacy. Dennis was appointed by HSA to the Board of Trustees in 2001. Dennis also served on the Canadian Blood Services defined benefit pension plan between 1998 and 2004.

In 2012, Dennis was appointed by the Municipal Pension Plan to the British Columbia Investment Management Corporation Board of Directors.

Lucas Corwin

Lucas Corwin is an executive with the Province of British Columbia, where he has held a number of senior roles within government. He is currently the acting Assistant Deputy Minister of Labour Relations at the Public Sector Employers' Council Secretariat.

Lucas first became involved in pension issues as a labour and employment lawyer at Fasken Martineau DuMoulin in Vancouver. On joining the provincial government in 2002, Lucas was appointed to the Teachers' Pension Board of Trustees, moving to the Municipal Pension Board of Trustees in the fall of 2008.

Debra Ducharme

Deb Ducharme is a registered nurse and a long-time activist with the BC Nurses' Union (BCNU). She has been on the BCNU Provincial Council for 10 years, originally as regional chair for the Thompson North Okanagan and currently as the Provincial Executive Councillor—Pensions. Deb was appointed to the Board by the BCNU in September 2010.

Hugh Finlayson

Hugh Finlayson is a certified human resources professional and the chief executive officer (CEO) of the BC Public School Employers' Association (BCPSEA). In addition to his responsibilities with BCPSEA, Hugh led two other multi-employer associations—the Post Secondary Employers' Association and the Community Social Services Employers' Association (CSSEA), through governance and organizational changes as interim CEO. He was appointed to the CSSEA Board of Directors following its reorganization.

Hugh has been a member of the Board of Trustees since 2006 and is chair of the British Columbia Institute of Technology's Human Resources Management Program Advisory Committee. He is past president of the BC Human Resource Management Association.

Harold Heyming

Harold Heyming served as the vice-chair of the Interior Savings Credit Union, a trustee of the BC Central Pension and Benefit Trust, vice-president and secretary-treasurer of the BC Professional Fire Fighters Association (BCPFFA) and secretary-treasurer of the BC Professional Fire Fighters Burn Fund.

Harold was appointed to the Board of Trustees in 2003 by the BCPFFA and the BC Police Association. He was a 35-year veteran platoon captain for the Kelowna Fire Department before retiring in 2011.

Robert Hobson

Robert Hobson served as a director of the Union of British Columbia Municipalities (UBCM) for 13 years and as president in 2008/09. He has been a member of Kelowna City Council for 25 years and chair of the Regional District of Central Okanagan for the past 20 years. He is chair of the Central Okanagan Regional Hospital District and a trustee of the Municipal Finance Authority.

Robert is a professional planner and administrator who was appointed to the Board of Trustees in 2006 by UBCM. He holds a master of arts in community and regional planning and a master in public administration.

Gary Johnson

Gary Johnson was appointed to the Board of Trustees in 2001 by the Municipal Employees Pension Committee. He retired in 2009 from his position as a national representative for the Canadian Union of Public Employees (CUPE). Gary has served as chair and vice-chair of the Pension Corporation Board of Directors, the CUPE Employees Pension Plan and was a trustee of the Public Education Benefits Trust. He has extensive training in pension and benefit administration.

Lyn Kocher

Lyn Kocher was appointed as a member of the Municipal Pension Advisory Board in 1999 and was part of the team that negotiated joint trusteeship of the Plan. Lyn has continued to serve on the Board of Trustees since joint trusteeship in 2001 on behalf of the Health Employers Association of BC (HEABC).

Lyn is the chief financial officer and executive director of Corporate Services for HEABC. Lyn has completed the Advanced Trustee Management Standards Program in pension fund leadership and is also a certified general accountant.

Frank Leonard

Frank Leonard is currently chair of the Municipal Finance Authority and has served as president of the Union of British Columbia Municipalities (UBCM). He has been the mayor of Saanich since 1996 and chairs the Saanich Police Board, serves on the Victoria Regional Transit Commission and has chaired the Capital Regional District Board, the Hospital Board and the Housing Corporation Board.

Frank was appointed to the Board of Trustees in 2002 by UBCM, and was on the board of directors for the BC Investment Management Corporation. Frank has a bachelor of arts (honours) and a master of arts from the University of Victoria.

Brian Northam

Brian is a founding trustee who represented the Council of Joint Unions and Organizations during the Joint Trust Agreement negotiations. He has served on the Municipal Pension Plan's Communications & Education Committee and the Interplan Education Committee for more than 10 years. Brian completed trustee education courses through UBC's Sauder School of Business, Humber College, and the International Foundation Canadian Investment Institute's Advanced Trustee Management Standards Program. He is a member of the Association of Canadian Pension Management.

Brian has served on the executive of the Greater Vancouver Regional District Employees' Union for more than 20 years, and is a negotiator on the GVRDEU collective bargaining team. He is responsible

for Workers' Compensation claims appeals, is the Union's Occupational Health & Safety Officer and handles grievances and disability issues.

Brian participated on the advisory committee of the Capilano College Labour Studies Program. He is currently a member and on the Board of Directors of the Maple Ridge Concert Band. He plays in the Delta Police Pipes & Drums. Brian works as an electrician with the Metro Vancouver Utilities Division.

Steven Polak

Steven Polak has been a member of the Municipal Pension Advisory Committee since 1980, and helped negotiate the Joint Trust Agreement in 2001. He was one of the founding members of the Municipal Pension Retirees' Association, of which he is also president.

He formerly served as a Trustee appointed by the Hospital Employees Union (HEU) before his retirement in 2002, and now by the Municipal Employees Pension Committee (MEPC) in a position reserved for retired members. Steven also chaired the MEPC from 1982 until 2002, and served as a director and provincial executive of the HEU. He was also one of the founding directors of the BC Pension Corporation, and has done extensive pension administration and Trustee training.

Patti Price

Patti Price was appointed to the Board of Trustees in 2006 by the Canadian Union of Public Employees, British Columbia (CUPE BC). Patti was a member of the CUPE BC Pensions Committee before joining the Board. She is a human resources staffing and benefits administrator with the Delta Board of Education, and is responsible for administration for about 900 CUPE support staff workers in her school district.

Mary Procter

Mary Procter is the Vice-President of Finance & Planning at Providence Health Care and brings more than 20 years of health care experience to her role as Trustee. Mary has a bachelor of commerce degree, a master in leadership and is a certified management accountant. She was appointed to the Board in October of 2009 by the Health Employers Association of BC and is committed to ensuring the long-term sustainability of the Plan.

Angie Sorrell

Angie Sorrell is the Executive Director Pensions at the Public Sector Employers' Council Secretariat, involved with the four public sector pension plans, and the Canada Pension Plan. Angie was a senior advisor to the Provincial Treasury Board prior to her current position. She holds a masters degree, has completed the Advanced Trustee Management Standards Program, and qualified for the Retirement Plans Associate certification through the International Foundation of Employee Benefit Plans. Her training and work has revolved around budget, fiscal and economic analysis, and is now focused on pension issues. Angie was appointed to the Board of Trustees in February 2008 by the provincial government and has been Chair of the Governance Committee since 2011.

Alternate Trustees

Jeremy Bell

Jeremy was appointed as an Alternate Trustee of the Municipal Pension Board of Trustees effective January 1, 2011. He was appointed by the Plan Employer Partner.

Jeremy is a consulting actuary with George & Bell Consulting. He is the Chief Consulting Actuary for Healthcare Benefit Trust (HBT), where he is responsible for establishing reserves, setting rates and investing assets related to non-pension benefits for employees in the health care and social service sectors. Prior to joining HBT, Jeremy spent 10 years at national consulting firms consulting to boards,

committees and sponsors on pension and investment issues. Jeremy is a Fellow of the Canadian Institute of Actuaries and is a chartered financial analyst charterholder. He is active in the Canadian Institute of Actuaries on the Group Insurance and Post Employment Benefit committees. He is an external member of the Investment Committee of the Alberta Public Service Pension Plan.

Donisa Bernardo

Donisa Bernardo worked as a pharmacy technician at Royal Inland Hospital from 1984 until she was elected as HEU's financial secretary in 2006, a position she currently holds. She became a union activist in 1989. Donisa was first elected to HEU's Provincial Executive in 1998 as Regional Vice-President (Okanagan) and served several terms as Senior Trustee. In 2001, the Municipal Employees Pension Committee appointed her to the Board of Trustees as an Alternate Trustee.

Bella Brown

Bella Brown is a former paediatric nurse with more than 25 years' experience. A labour relations officer with British Columbia Nurses' Union (BCNU) since 2006, Bella advocates for pension compensation when resolving collective agreement issues that have impacted members' pension benefits.

Bella holds an executive master in business administration in healthcare from the Sauder School of Business at the University of British Columbia. The BCNU appointed Bella to the Board as an Alternate Trustee in 2011.

Hilary Brown

Hilary Brown is the director of Data Analysis and Planning for the British Columbia Public School Employers' Association (BCPSEA). She was appointed to the Municipal Pension Plan Board of Trustees effective January 1, 2012, by BCPSEA.

Hilary has been with BCPSEA for four years. In addition, Hilary was the assistant secretary treasurer for School District 63 (Saanich), Director of Funding and French Programs for the provincial Ministry of Education and was an accounting term professor at Camosun College.

Judi Filion

Judi Filion was the treasurer of the BC Government and Service Employees' Union from June 2005 to June 2011. She was appointed an Alternate Trustee on January 1, 2011. Her appointment to the Board is through the Council of Joint Organizations and Unions. Judi has completed courses with the International Foundation of Employee Benefit Plans and the Advanced Trustee Management Standards Program.

John Johnston

John Johnston is the vice President of People & Clinical Services at Interior Health. In this role, he provides leadership, oversight and strategic direction to Human Resources, Information Management Information Technology, as well as Clinical Services (Laboratory, Diagnostic Imaging and Pharmacy).

Prior to taking on this position, John was with the Calgary Board of Education where he held the position of Superintendent, Human Resources. He has spent most of the past 25 years in the British Columbia public sector in executive roles, previously serving with organizations such as the Richmond Hospital, Children and Women's Hospital of British Columbia and the Vancouver Island Health Authority. John was also one of the founding executives who established the Canadian Blood Services following the Krever Commission of Inquiry on the Canadian Blood System.

John holds an undergraduate degree in the Social Sciences, a graduate degree (MBA) in Business Administration and a graduate certificate in Project Management. He is a lifelong learner, has an accomplished track record as a strategic leader and respectful change agent, as well as extensive

expertise building strong stakeholder and partner relationships. In addition, he has held an Order in Council Appointment to the Labour Relations Board of British Columbia, was formerly a Director on the Board of the Municipal Pension Plan of British Columbia and the BC Investment Management Corporation. He also enjoys active roles in community organizations, and has lectured at a community college and a university.

Kelly Knox

Kelly Knox is the senior trustee-elect for the Hospital Employees' Union (HEU), and is currently working as a ward aide in the cardiac unit at St. Paul's Hospital. Kelly was first appointed to the Board of Trustees by the HEU in 2003.

Rebecca Maurer

Rebecca Maurer was appointed as an Alternate Trustee in October 2011 by the Health Sciences Association of British Columbia (HSABC) where she is director of Human Resources and Operations. Prior to holding that position Rebecca was HSABC's director of Strategic Communications and Member Development.

Rebecca brings significant governance experience to the Board of Trustees. She has been a member of various boards, including those of Langara College, the Canadian Breast Cancer Foundation—British Columbia/Yukon Region and the Planned Parenthood Association of British Columbia. Rebecca currently serves on the boards of the New Westminster Police Department and Partners in the Horn of Africa.

Marno McInnes

Marno McInnes is the vice president of Strategic Negotiations and Contract Administration for the Health Employers Association of British Columbia (HEABC). He was appointed to the Board of Trustees by the HEABC in December 2010.

Marno holds a master in business administration from Simon Fraser University and brings 25 years of labour relations expertise and substantial health sector negotiation experience to his role as trustee.

Barb Sinclair

Barb Sinclair was recommended to the Municipal Employees Pension Committee (MEPC) by the Municipal Pension Retirees' Association. Barb was appointed to the Board by the MEPC in January 2012.

Barb, who retired in March 2007, worked for 28 years in finance, including seven years as the supervisor of Utilities with the District of Saanich.

While working with Saanich, Barb gained valuable experience in human resources, including participating in hiring, interviews, in-house training and discipline. Barb also spearheaded negotiated contracts for Saanich.

Barb has taken courses at Camosun College and the University of Victoria in the areas of supervision and business administration as well as sessions and seminars hosted by the Canadian Union of Public Employees on the topics of union policies and procedures.

Todd Sweet

Todd Sweet has served on the executive board of the New Westminster Police Officers' Association for 17 years, including two years as treasurer and 12 as president. Todd has also served for four years as a trustee with the BC Police Association (BCPA).

In those capacities, Todd has been involved in collective bargaining, grievances and lobbying the federal and provincial governments for changes to legislation and public safety issues. He has been a police officer for 23 years. Todd was appointed to the Board of Trustees in 2005 by the BCPA.

Philip Twyford

Philip Twyford is the executive director, Negotiations, Finance for the Ministry of Labour, Citizens' Services and Open Government. He was appointed an Alternate Trustee by the provincial government June 8, 2012. Philip is a professional accountant.

Colleen Wiens

Colleen Wiens is a payroll/accounts payable clerk with School District 67 (Okanagan Skaha), and was appointed to the board in January 2009 by the Canadian Union of Public Employees.

Colleen has worked with the school district for more than 20 years, holds a business administration diploma with an accounting option and has completed the Canadian Payroll Association Manager course.

Hilary Woodward

Hilary Woodward is the executive financial officer for the Legislative Assembly of British Columbia. She is also a chartered accountant. Hilary was appointed as an Alternate Trustee to the Board of Trustees in 2011 by the provincial government.

Committees

Appeals Panel

The Appeals Panel was established in accordance with the Joint Trust Agreement and has full jurisdiction to consider and decide all appeals. Its role is to determine whether the Plan's administrative agent applied the Plan Rules correctly; the Panel does not have the authority to change the Plan Rules. In 2012, the Panel did not meet.

The Panel posts decisions issued on the plan website, with all information that could identify an individual removed from the written decision.

Benefits

This committee reviews the Plan Rules and makes recommendations for changes as required. It monitors and reports to the Board on projected non-guaranteed post-retirement group benefits costs and makes recommendations annually for extended health and dental premium rates and subsidies. The committee also reviews the post-retirement group benefit rules and makes recommendations for changes to plan design, coverage levels and cost structure as required.

The Benefits Committee met four times in 2012.

Communications & Education

The Board is committed to providing excellent communications to stakeholders, employers and plan members. The Communications & Education Committee supports that commitment by developing communications policy and strategy. It also organizes Trustee orientation, education and learning initiatives. The committee coordinates the Employer and Union Forum and Annual General Meeting, reviews plan communications materials and has delegated authority from the Board to approve certain communications materials.

The Communications & Education Committee met 10 times in 2012.

Governance

This committee ensures the Board has up-to-date governance policies and procedures in areas including confidentiality, conflict of interest, Trustee performance and self-assessment, risk

management and strategic planning. It also monitors contracts and service agreements with major service providers and coordinates nominations for Chair, Vice-Chair, the Appeals Panel and all Board committees.

The Governance Committee met three times in 2012.

Investment

The Investment Committee reviews and makes recommendations to the Board about its *Statement of Investment Policies and Procedures*, which sets the overall direction for the Plan's investments. It also coordinates periodic asset allocation studies and makes recommendations on investments.

The committee met 10 times in 2012.

Valuation

The Valuation Committee develops, reviews and recommends revisions to the Municipal Pension Board of Trustees' Funding Policy. The committee works with the plan actuary to coordinate setting assumptions for actuarial valuations, reviews the valuation results and determines changes to contribution rates, if required. Actuarial valuation is one of the key components for ensuring the financial health of the Plan.

The committee met four times in 2012.

Interplan Audit

The Municipal Pension Board of Trustees participates in the Interplan Audit Committee. The mandate of the Interplan Audit Committee is to act on behalf of, and to provide assistance to, the plan boards for:

- a timely and cost-effective system of accounting and reporting,
- financial statements conforming with generally accepted accounting principles,
- an independent audit of the financial statements, and
- an annual report with audited financial statements.

The committee accomplishes its mandate to provide financial oversight by:

- monitoring and reporting to the boards on the integrity of financial reporting, internal controls and compliance,
- monitoring and reporting on the independence and performance of the auditors,
- monitoring and reporting on risk management as it affects financial reporting,
- recommending the selection and compensation of external auditors, and
- addressing any matter referred to the committee by one or more of the four boards.

Membership in the committee includes two nominees from each of the boards of the College, Municipal, Public Service and Teachers' pension plans. All nominees must be ratified by all the boards. The committee must include at least two trustees who understand generally accepted accounting principles, internal controls and audit committee functions. The committee must meet at least three times a year. In addition to its role of financial oversight through monitoring and reporting, the committee also evaluates its own performance annually through an established procedure.

The Interplan Audit Committee met three times in 2012.

Other Interplan Committees

The Board also participates in the Interplan Trustee Education Committee, the Interplan *Member's Benefit Statement* Committee and the Executive Forum.

Trustee Remuneration

Board Member	# Meeting days attended/ possible[1]	Total remuneration[2]		Remuneration paid to
Richard Taylor, Chair[3]	16/20	23,797.50	23,797.50	Richard Taylor Union of BC Municipalities
Brendan Dick, Vice-Chair[3]	20/20	27,221.00	5,010.00 22,211.00	Brendan Dick Hospital Employees' Union
Mark Allen Resigned December 10, 2012	15/17	7,181.00	7,181.00	Mark Allen
Ken Bayne	17/23	6,675.00	4,509.00 2,166.00	Kenneth Bayne City of Vancouver
Jeremy Bell	12/16	5,486.00	5,486.00	Jeremy Bell
Donisa Bernardo	4/6	3,340.00	3,340.00	Hospital Employees' Union
Dennis Blatchford	11/17	4,175.00	1,002.00 3,173.00	Dennis Blatchford Health Sciences Association of BC
Bella Brown	10/10	6,680.00	1,002.00 5,678.00	Bella Brown BC Nurses' Union
Hilary Brown	13/14	4,509.00	1,670.00 2,839.00	Hilary Brown BCPSEA
Lucas Corwin	6/7	835.00	835.00	Public Sector Employers' Council Secretariat
Pat Doyle Term ended December 31, 2011[4]	1/1	810.00	810.00	Pat Doyle
Debra Ducharme	16/19	15,000.00	15,000.00	BC Nurses Union
Judi Filion	7/10	8,350.00	8,350.00	Judi Filion
Hugh Finlayson	16/22	6,012.00	6,012.00	BC Public School Employers' Association
Harold Heyming	20/22	17,593.50	17,593.50	BCPFFA
Robert Hobson	19/21	12,161.00	12,161.00	Robert Hobson
Gary Johnson	25/26	17,829.00	17,829.00	Gary Johnson
Kelly Knox	8/10	3,340.00	668.00 2,672.00	Kelly Knox Hospital Employees' Union
Lyn Kocher	21/22	5,138.62	5,138.62	Health Employers Association of BC
Frank Leonard	15/17	7,181.00	7,181.00	Frank Leonard
Fran Macdonnell Term ended December 31, 2011[4]	1/1	648.00	648.00	Fran Macdonnell
Rebecca Maurer	9/10	6,179.00	6,179.00	Health Sciences Association of BC
Marno McInnes	2/10	—	—	Health Employers Association of BC
Louise Mercer Resigned June 7, 2012	7/9	2,338.00	2,338.00	Louise Mercer
Brian Northam	21/22	16,591.50	16,591.50	Brian Northam
Steven Polak	21/23	14,165.00	14,165.00	Steven Polak
Patti Price	24/26	15,614.50	5,594.50 10,020.00	Patti Price CUPE BC Division
Barbara Sinclair	6/6	5,010.00	5,010.00	Barbara Sinclair
Angie Sorrell	21/21	8,183.00	8,183.00	Public Sector Employers' Council Secretariat
Todd Sweet	14/14	10,771.50	10,771.50	Todd Sweet
Philip Twyford Appointed June 8, 2012	4/6	2,171.00	2,171.00	Minister of Finance
Colleen Wiens	10/10	12,495.00	10,177.00 2,318.00	Colleen Wiens CUPE BC
Hilary Woodward	10/10	3,173.00	3,173.00	Ministry of Health
				Average attendance 86%

1 Comparison of the number of meetings attended vs. the number of meetings scheduled. The number of meetings scheduled varies by Trustee due to Committee membership.

2 Total Remuneration Paid includes attendance at Board & Committee meetings, BC Public Sector Pension Conference, and preparation and travel time for these meetings.

3 Includes Board Chair annual stipend of $6,680.00 and Vice-Chair annual stipend of $5,010.00.

4 December 2011 meetings paid in 2012.

Agents and Service Providers

The Municipal Pension Board of Trustees (Board) is responsible for governing the Plan and providing direction to the Plan's administrative agent (British Columbia Pension Corporation) and the Plan's investment agent (British Columbia Investment Management Corporation). The Board also receives external legal, audit and actuarial support.

The British Columbia Investment Management Corporation is one of Canada's largest investment managers. It administers $92 billion across all major asset classes, with global exposure.

The British Columbia Pension Corporation is among Canada's largest pension administrators, annually collecting more than $2.8 billion in contributions and paying $3.0 billion in benefits. It provides plan information to members and employers, manages contributions and member records, pays pension benefits and provides policy, financial and communications services to the Board.

Eckler Ltd. serves as the actuary for the Plan. The actuary conducts an actuarial valuation on the Plan's funding every three years and supports the Board of Trustees in their decision-making as appropriate. The next valuation will be presented to the Board in the fall of 2013.

Pacific Blue Cross administers retired plan members access to group extended health and dental benefit plans available to retired plan members.

PriceWaterhouseCoopers LLP provides external audit services for the Plan.

Shawn Hatch, Legal Advisor, is the legal counsel for the Plan.

Financial Statements

PENSION CORPORATION
We make it easy

Executive Offices

Mailing Address:
PO Box 9460
Victoria BC
V8W 9V8

Location:
2995 Jutland Road
Victoria BC
V8T 5J9

Phone:
250 387-8201
1 800 663-8823
Fax:
250 953-0429

MUNICIPAL PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The financial statements of the Municipal Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Corporation), the administrative agent for the Municipal Pension Board of Trustees (Board) for the Plan. The Board is responsible for having annual financial statements prepared in accordance with Canadian generally accepted accounting principles for pension plans. The Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles for pension plans in Canada. Other financial information contained in the Municipal Pension Plan Annual Report is consistent with these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of PricewaterhouseCoopers LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditor's Report attached to these financial statements.

Trevor Fedyna, CGA, C. Dir
Chief Financial Officer/Vice President Finance
British Columbia Pension Corporation

Bruce Nicol, CA
Director, Pension Plan and Corporate Financial Services
British Columbia Pension Corporation

June 26, 2013

June 26, 2013

Independent Auditor's Report

To the Members of the Municipal Pension Plan

We have audited the accompanying financial statements of the Municipal Pension Plan, which comprise the statement of financial position as at December 31, 2012 and the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

pwc

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Municipal Pension Plan as at December 31, 2012 and the changes in its net assets available for benefits and changes in its accrued pension benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

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Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF FINANCIAL POSITION
($ Millions)

As at December 31	2012	2011
Assets		
Investments at fair value (Note 3)	$ 31,091	$ 28,044
Receivables		
Members' contributions	27	27
Employers' contributions	29	29
Other	3	5
Due from sale of investments	50	30
	109	91
Prepaid expenses	8	8
Total Assets	31,208	28,143
Liabilities		
Payable for purchase of investments	127	76
Taxes payable	1	10
Accounts payable and accrued expenses	18	20
Total Liabilities	146	106
Net Assets Available for Benefits	$ 31,062	$ 28,037
Accrued Pension Benefits		
Accrued pension benefits - basic (Note 4a)	$ 27,304	$ 25,440
Accrued pension benefits - non-guaranteed (Note 4b)	4,584	4,416
Retirement annuity account (Note 4c)	332	320
Accrued Pension Benefits	32,220	30,176
Deficit		
Current contribution method unfunded actuarial liability (Note 5a)	(1,149)	(566)
Measurement differences between funding and accounting positions (Note 5a)	(9)	(1,573)
Deficit	(1,158)	(2,139)
Accrued Pension Benefits and Deficit	$ 31,062	$ 28,037

All accompanying notes are an integral part of these financial statements including:

- Commitments (Note 12)
- Financial Instruments (Note 13)
- Capital Disclosures (Note 14)

Approved by the Municipal Pension Board of Trustees:

Steven Polak
Trustee,
Municipal Pension Board of Trustees

Hilary Woodward, CA
Trustee,
Municipal Pension Board of Trustees

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ Millions)

For the year ended December 31	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals 2012	2011
Increase in Assets						
Investment income (Note 6)						
Income allocation	$ 860	$ 32	$ 154	$ -	$ 1,046	$ 909
Change in fair value	1,631	-	268	-	1,899	15
	2,491	32	422	-	2,945	924
Contributions (Note 7)						
Members'	612	5	88	4	709	652
Employers'	693	6	46	67	812	755
	1,305	11	134	71	1,521	1,407
Transfers from other plans	15		4	-	19	22
Total Increase in Assets	3,811	43	560	71	4,485	2,353
Decrease in Assets						
Benefits (note 8)	1,214	12	68	5	1,299	1,187
Transfers to other plans	10	-	4	-	14	19
Retired member group benefits (Note 9)	-	-	-	65	65	59
Investment and Administration costs (Note 10)	74	-	7	1	82	68
Total Decrease in Assets	1,298	12	79	71	1,460	1,333
Increase in Net Assets Before Transfers	2,513	31	481	-	3,025	1,020
Account transfers (Note 11)	332	(19)	(313)	-	-	-
Increase in Net Assets	2,845	12	168	-	3,025	1,020
Net Assets available for Benefits Beginning of Year	23,301	320	4,416	-	28,037	27,017
Net Assets available for Benefits End of Year	$ 26,146	$ 332	$ 4,584	$ -	$ 31,062	$ 28,037

Supplemental Benefits Account (Note 9)

Municipal Pension Plan

MUNICIPAL PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS
($ Millions)

For the year ended December 31	2012	2011
Increase in Accrued Pension Benefits		
Interest on accrued pension benefits	$ 1,671	$ 1,554
Benefits accrued	1,148	1,112
Account transfers	332	107
Increase in Accrued Pension Benefits	3,151	2,773
Decrease in Accrued Pension Benefits		
Benefits paid	1,287	1,177
Decrease in Accrued Penson Benefits	1,287	1,177
Net increase in Accrued Pension Benefits	1,864	1,596
Accrued Basic Pension Benefits, Beginning of Year	25,440	23,844
Accrued Basic Pension Benefits, End of Year (Note 4a)	27,304	25,440
Non-guaranteed Pension Benefits		
Increase in non-guaranteed benefits accrued (Note 4b)	168	123
Accrued Non-guaranteed Pension Benefits, Beginning of Year	4,416	4,293
Accrued Non-guaranteed Pension Benefits, End of Year (Note 4b)	4,584	4,416
Retirement Annuity Account		
Increase (decrease) in retirement annuity account (Note 4c)	12	(4)
Retirement Annuity Account, Beginning of Year	320	324
Retirement Annuity Account, End of Year (Note 4c)	332	320
Total Accrued Pension Benefits, End of Year	$ 32,220	$ 30,176

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN

The following brief description of the Municipal Pension Plan (Plan) is a summary and is provided for general information only. For more information please refer to the Joint Trust Agreement (Agreement) and the Plan rules (pension plan rules).

a) General

The Plan is a jointly trusteed pension plan continued in agreement by the Public Sector Pension Plans Act, *S.B.C 1999*, s.44 (Act). The Act enabled the establishment of the Agreement. Joint trusteeship was established on April 5, 2001. The partners to the Agreement are the Municipal Employees' Pension Committee, as the member partner, and the provincial government of British Columbia and the Union of British Columbia Municipalities, as the employer partners (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Municipal Pension Board of Trustees (Board) and provides the authority for the Board to make pension plan rules.

The Plan is registered with the Superintendent of Pensions which administers and enforces the Pension Benefits Standards Act (PBSA). The PBSA governs employment pension plans that have active, inactive and retired members primarily based in British Columbia.

Membership in the Plan is open to all eligible employees of a municipality, school district, college, health service organization, police and fire fighters, and many other eligible employers as designated by the Board.

b) Roles and Responsibilities

Partners
The Partners and appointing authorities representing the Plan members and Plan employers are responsible for appointing the sixteen trustees and sixteen alternate trustees representing Plan members and Plan employers. The Partners have responsibility for resolving trustee disputes and, if certain conditions are met, directing amendments to the pension plan rules.

Board
The Board is fully responsible for the management of the Plan, including investment of the assets and administration of the Plan. The Board may amend the pension plan rules as long as changes can be funded by Plan surpluses or are cost-neutral to the Plan (subject to transitional funding provisions in Note 5a). Unless required to ensure compliance with regulatory enactments applicable to the Plan, pension plan rule changes that result in contribution rate changes can only be initiated by the Partners. The Chair and Vice Chair are appointed by the other trustees.

British Columbia Pension Corporation (Pension Corporation)
The Pension Corporation provides benefit administration services as an agent of the Board. On nomination of the Partners, the Board appoints two members to the eight member board of directors of the Pension Corporation.

British Columbia Investment Management Corporation (bcIMC)
bcIMC provides investment management services as an agent of the Board. The Board appoints one member to the seven member board of directors of bcIMC.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

c) Funding

Contributions and investment earnings fund plan benefits. Contributions are made by active members and employers of the Plan. The determination of the value of the benefits and required contributions is based on periodic actuarial valuations for funding purposes (Note 5a).

The Board's funding policy is intended to secure the pension promise and achieve long-term stability in contribution rates for both employers and members.

d) Contributions

Basic Account
Members contributed to the Basic Account 6.80% (5.99% to June 30, 2011) of salaries up to and including the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($50,100 in 2012) and 8.30% (7.49% to June 30, 2011) of salaries over the YMPE, less amounts allocated to the Supplemental Benefits Account (Notes 5a, 7 and 9).

Employers contributed to the Basic Account at varying rates, depending on the mix of employees in the group rate classifications specified by the Plan, less amounts allocated to the Supplemental Benefits Account (Notes 5a, 7 and 9).

Inflation Adjustment Account and Supplemental Benefits Account
Members contributed 1% of salaries to the Inflation Adjustment Account (IAA). Employers contributed 1% of salaries to the IAA, less amounts allocated to the Supplemental Benefits Account (Notes 5b, 7 and 9).

Retirement Annuity Account
Some employers have special agreements with members by which additional contributions are made to increase members' pension benefits. These contributions are credited to the Retirement Annuity Account. Depending on benefit eligibility the accumulated monies at retirement are used to fund the purchase of a pension (Note 11) or are paid out as a lump sum benefit.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

e) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65 (age 60 for certain groups);
- at age 60, with at least 2 years contributory service (age 55 for certain groups); or
- at age 55 or older, with age plus years of service totaling 90 or more (age 50 or older and age plus service equaling 80 or more for certain groups).

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings up to the YMPE and 2% of pensionable earnings over the YMPE for each year of pensionable service (to a maximum of 35 years). Pensionable earnings are based on the member's highest five-year average annual salary (HAS).

The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of YMPE or the HAS for each year of pensionable service.

Future cost-of-living adjustments are not guaranteed. These adjustments are granted at the discretion of the Board and may not exceed the annual increase in the Canada Consumer Price Index (CPI) as at the previous September 30, subject to the availability of funds in the IAA (Notes 5b and 11). Any cost-of-living adjustment the Board grants is applied in January. The Board annually considers relevant factors to determine if an adjustment will be granted.

At January 1, 2013, retired members will receive a cost-of-living adjustment of 1.2% (2012: 3.2%).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. DESCRIPTION OF THE MUNICIPAL PENSION PLAN (continued)

f) Termination and Portability Benefits

A terminating member, who is eligible for a pension but has not reached the earliest retirement age, may choose:

- a deferred pension; or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future re-employment with a Plan employer, or if under age 60 with less than two years of contributory service (age 55 for certain groups), may choose a refund of contributions with interest.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

g) Other Benefits

Disability and survivor benefits are also available under the Plan. A disability pension is available to a member under age 60 (under age 55 for certain members) who becomes totally disabled as defined by the Plan, has at least two or more years of contributory service, is not eligible to receive benefits from an approved long-term group disability plan and meets other eligibility requirements. The pension is calculated using a member's years of pensionable service to the date of the disability retirement and HAS. Disability pensions continue until normal retirement or until the member is able to return to work (Note 8). A death benefit may be available to a surviving spouse or designated beneficiary upon the death of an active member. Depending on eligibility requirements, the benefit may be paid in the form of a survivor pension or lump-sum payment (Note 8).

Supplemental benefits (Note 9) may also be funded from the Supplemental Benefits Account.

h) Tax Registration

The Plan is a Registered Pension Plan (RPP) as defined in the Income Tax Act (Canada) (Tax Act) (registration number 0359158), except for any supplemental benefits (Note 9) which are funded in addition to the RPP. The Plan is not subject to income taxes.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles (GAAP) for pension plans, Part IV of the Canadian Institute of Chartered Accountants (CICA) handbook, and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans.

Effective January 1, 2011, the Plan adopted CICA handbook section 4600, *Pension Plans*. Accounting standards for private enterprises in Part II of the CICA handbook have been chosen for accounting policies that do not relate to the Plan's investment portfolio or pension obligations.

International Financial Reporting Standard (IFRS)13, *Fair Value Measurement* which is applicable for annual periods beginning on or after January 1, 2013 was early adopted effective January 1, 2011. This standard permits the use of closing market prices in the determination of fair values for financial assets. There is no impact on the financial statements as closing prices have historically been used in determining the fair value of the Plan's financial assets.

b) Accrued Pension Benefits

Accrued pension benefits are determined based on an actuarial valuation prepared by an independent actuarial consulting firm. The valuation of accrued pension benefits is based on data extrapolated to the financial statement date. The valuation uses the projected benefit method prorated on service which incorporates the Board's estimate of various economic and non-economic assumptions. These assumptions are the same as those used in the determination of the actuarial position of the Plan for funding purposes.

c) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing exchange rates on the year-end date. Income and expenses are translated into Canadian dollars at the prevailing exchange rates on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included within the current period change in fair value in investment income.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Investments

Investments are stated at fair value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the value of the underlying assets. Fair value represents estimates of the consideration that would be agreed upon between arms length, knowledgeable, willing parties who are under no compulsion to act. The calculation of fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. It is best evidenced by a quoted closing market price, if one exists. Where public market prices or quotations are not available, fair values are derived using valuation methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate. The fair value of derivative contracts is included in the fair value of pooled investment portfolios.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

e) Investment Income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder and income from directly held investments. The current period change in fair value includes realized and unrealized gains and losses which are included in investment income.

Within the pools, dividends are accrued on the ex-dividend date. Income received and paid from derivative contracts is recognized on the accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

f) Use of Estimates

The preparation of financial statements, in conformity with Canadian GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of increases and decreases in assets and liabilities during the period. Significant areas requiring the use of management estimates relate to the valuation of investments (primarily real estate and private placements) and the calculation of the accrued pension benefit for the Basic Account for accounting and funding purposes. Actual results could differ materially from these estimates.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

3. INVESTMENTS (FAIR VALUE)

	2012			2011
	Basic Account	Inflation Adjustment Account	Total	Total
	($ Millions)			
Short-term	$ 533	$ 93	$ 626	$ 441
Canadian Bonds (Note 12)	4,637	807	5,444	6,884
Canadian Equities	4,376	761	5,137	4,500
U.S. Equities	3,681	641	4,322	3,458
International Equities	5,457	950	6,407	4,830
Mortgages	926	161	1,087	1,074
Real Estate	4,204	732	4,936	4,348
Private Placements	2,668	464	3,132	2,509
	$ 26,482	$ 4,609	$ 31,091	$ 28,044

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by bcIMC. Each unit gives its holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities. While the purpose of each fund is to invest in a particular type of investment, at any time, given the timing of trading activities, the fund may hold a certain amount of cash, short-term investments, accrued interest income and net accounts receivable or payable from outstanding sales and purchases of investments. The Plan directly holds Canadian real return bonds of $12 million (2011: $13 million) , a private placement investment of $199 million (2011: $206 million) and real estate investments of $33 million (2011: $nil) (Note 12). The Basic and IAA portfolios are combined for investment management purposes.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with maturities of 15 months or less and short-term bonds with one to five year terms. Canadian bonds consist of government and investment grade corporate bonds and debentures. Equities consist primarily of publicly traded shares, and, in the case of international equities, consist mainly of investments in the equity markets of Europe and Asia, as well as key emerging markets.

Short-term investments are valued using current market yields. Canadian bonds are valued based on current market yields and in some cases quoted market prices. Canadian, U.S. and International equities are valued based on quoted market prices.

MUNICIPAL PENSION PLAN
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3. INVESTMENTS (FAIR VALUE) (continued)

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements consist mainly of Canadian and international long-term debt or equity investments made outside of the structure of public markets (Note 12).

The mortgages are secured by real estate and are valued using current market yields. Real estate investments are valued quarterly by bcIMC's external real estate investment managers and, at least once every 10 to 18 months by accredited independent appraisers to establish current market values. Private placements are valued annually based on financial statements from private placement external managers. Interim valuations for private placement investments are based on the annual valuations adjusted for subsequent cash flows and changes in foreign exchange rates for investments outside Canada.

Derivative contracts consist of foreign exchange contracts and are held indirectly through various pooled investment portfolios to manage exposure to foreign currency risk.

A separate investment asset portfolio is not held for Retirement Annuity Account assets. For administrative purposes, the Retirement Annuity Account assets are included in Basic Account Investments (2012: $332 million; 2011: $320 million).

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

a) Basic Account

In accordance with the Agreement and PBSA an actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in Note 5a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, of the Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes in Note 5a. The liability for accrued basic pension benefits at the valuation date is determined using the projected benefit method prorated on service.

The latest full actuarial valuation for accounting purposes was prepared as at December 31, 2009, by Eckler Ltd. This valuation calculated the liability for accrued basic pension benefits to be $22,385 million.

Between valuations, an estimate of the actuarial position is required. This estimate, called an extrapolation, has been made to December 31, 2012, using the following long-term actuarial assumptions:

- annual investment return 6.50%
- annual salary escalation rate 3.75%

MUNICIPAL PENSION PLAN
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4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

a) Basic Account (continued)

The extrapolation calculated the liability for accrued basic pension benefits to be $27,304 million (2011: $25,440 million).

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals and changes in other factors, may vary significantly from the long-term assumptions used in the extrapolation. In the event of a major change to the Plan, a new valuation or review of the assumptions may be required.

The next full actuarial valuation will be at December 31, 2012 which will be disclosed in the December 31, 2013 financial statements.

b) Inflation Adjustment Account (IAA), Non-guaranteed Pension Benefits

No unfunded liability exists for the IAA since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. There is no minimum level of inflation adjustment required to be paid under the pension plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential inflation adjustments (Note 5b).The accrued non-guaranteed pension benefits obligation is therefore equal to the net assets available for benefits in the IAA, $4,584 million (2011: $4,416 million). The net increase of $168 million (2011: $123 million) in the IAA balance is comprised of employee and employer contributions and earnings on investments reduced by payments out of the account.

c) Retirement Annuity Account (RAA)

The RAA is comprised of additional contributions by employers and members under special agreements. If a member is entitled to, and chooses to purchase a pension at retirement, monies are transferred from the RAA to the Basic and the IAA to fund the pension. No unfunded liability exists as the obligation to purchase a pension is limited to the amount of the available assets in the account. The accrued pension benefit for the RAA is therefore equal to the net assets available in the RAA, $332 million (2011: $320 million). The increase of $12 million (2011: decrease $4 million) in the RAA balance is comprised of employee and employer contributions and earnings on investments reduced by payments out of the account.

MUNICIPAL PENSION PLAN
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5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

The Basic Account is the account from which the defined basic benefits of the Plan are paid. In accordance with the Agreement and PBSA an actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and accrued pension benefits to the financial statement date, and contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry-age method. This method produces the long-term rate of member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan. This rate is then adjusted for the amortization of any actuarial funding surplus or unfunded actuarial liability. The latest full actuarial valuation for funding purposes was prepared as at December 31, 2009 by Eckler Ltd. Based on the result of the valuation, the actuary determined that an increase in contribution rates was necessary for the Plan to maintain its proper funding. Effective July 1, 2011, member and employer basic contribution rates were each increased by 0.81% of salaries, as recommended by the actuary.

The Basic Account is also the account from which any cost-of-living adjustments that have been granted to retired members are paid. Future cost-of-living adjustments are not guaranteed within the Plan provisions and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits (Note 5b). As cost-of-living adjustments are granted, the Basic Account receives from the IAA the present value funding necessary for the cost-of-living adjustments granted. Therefore, accrued basic pension benefits for valuation purposes include the liability for all cost-of-living adjustments granted to the date of the valuation, but not for as yet unknown future cost-of-living adjustments.

Transitional period

The Agreement specifies a transitional period during which actuarial deficits will be amortized over 15 years, as required by the PBSA, and actuarial gains must be used to achieve the following objectives, in order of priority:

1. Eliminating any unfunded liability.
2. Simultaneously rebalancing member and employer contribution rates to the level of member contribution rates in effect at the time the Agreement was negotiated and providing specified benefit improvements.
3. Transfer funds in equal measure to a Contribution Rate Stabilization Reserve and to the IAA, to an aggregate total of one billion dollars. The Contribution Rate Stabilization Reserve will be shared on an equal (50/50) basis in order to maintain or reduce future member and employer contribution rates.

If these transitional objectives are achieved, the Agreement describes the manners in which the Board can elect to apply surplus assets so as to achieve over time an equitable sharing of the benefits of the surplus assets between members and employers. The Plan actuary has determined that, absent significant investment returns in excess of the valuation investment return assumption, it is unlikely that transition on the terms set out in the Agreement can be completed in the long term.

MUNICIPAL PENSION PLAN
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5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Transitional period (continued)

The Agreement describes that if at any time, an actuarial valuation indicates that increased basic contribution rates are required to fully fund the Plan on a going-concern basis, the increase must be shared equally by members and employers.

Actuarial valuation

Based on the actuarial valuation prepared as at December 31, 2009, and taking into account the present value of future contributions at the current contributions rate (current contribution method) the plan had an unfunded liability of $1,024 million. As the Plan may not reduce contribution rates until there is sufficient surplus to complete step 2 of transition, an event which may not occur, the current contribution method is the basis on which the Plan's actuarial position is disclosed.

An estimate of the actuarial position of the plan on the current contribution method has been made to December 31, 2012, using the following long-term actuarial assumptions:

- annual investment return 6.50%
- annual salary escalation rate 3.75%

This estimate, called an extrapolation, produced an estimated current contribution method unfunded actuarial liability of $1,149 million at December 31, 2012 (2011: $566 million estimated current contribution method unfunded actuarial liability), as follows:

As at December 31	2012	2011
	($ Millions)	
Net assets available for basic pension benefits	$ 26,146	$ 23,301
Actuarial asset value adjustment	(1,328)	268
Smoothed assets for basic pension benefits	24,818	23,569
Present value of future contributions (current contribution method)	13,776	13,396
Net actuarial assets for basic pension benefits	38,594	36,965
Liability for accrued and future basic pension benefits	(39,743)	(37,531)
Current contribution method unfunded actuarial liability	$ (1,149)	$ (566)

MUNICIPAL PENSION PLAN
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5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Actuarial valuation (continued)

Changes in the extrapolated current contribution method unfunded actuarial liability between 2011 and 2012:

($ Millions)	
Current contribution method unfunded actuarial liability at December 31, 2011	$ (566)
Change in liabilities	(2,212)
Net change in assets	1,629
Current contribution method unfunded actuarial liability at December 31, 2012	$ (1,149)

Extrapolations may not be reliable indicators of the next valuation results, nor do they necessarily reflect the overall trend of results. Between valuations various factors, including actual wage increases, investment earnings and the incidence of retirements, and withdrawals may vary significantly from the long-term assumptions used in the extrapolation.

The next full actuarial valuation will be as at December 31, 2012, which will be disclosed in the December 31, 2013 financial statements.

Measurement differences between funding and accounting positions

The primary components of the measurement differences between the extrapolated current contribution method unfunded actuarial liability and the financial statement deficit are as follows:

	2012	2011
	($ Millions)	
Current contribution method unfunded actuarial liability	$ (1,149)	$ (566)
Actuarial asset value adjustment	1,328	(268)
Difference in actuarial methods - present value of future current rate contributions	(13,776)	(13,396)
Difference in actuarial methods - present value of future liabilities	12,439	12,090
Measurement differences between funding and accounting positions	(9)	(1,574)
Deficit for financial statement purposes	$ (1,158)	$ (2,140)

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5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Actuarial asset value adjustment

For the purposes of determining the current contribution method unfunded actuarial liability, the actuarial value of net assets available for benefits is determined on an adjusted value basis which smoothes the difference between the actual investment return and the expected return based on a long-term real return rate over a five year period.

The following schedule indicates the year the components of the actuarial asset value adjustment will be recognized in the current contribution method unfunded actuarial liability. The amounts are based on that proportion of the total fund related to the Basic Account assets.

	Unamortized Gains/(Losses)	
	2012	2011
	($ Millions)	
2012	$ -	$ (455)
2013	547	260
2014	327	42
2015	169	(115)
2016	285	-
Total Adjustment	$ 1,328	$ (268)

Difference in actuarial methods

While the accrued pension benefit liability for financial statement purposes uses the projected benefit method prorated on service, the pension liability for funding purposes uses the current contribution method, where the present value of future contributions at the current contribution rate and future service benefits are included in the determination of the funded status of the plan.

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. As cost-of-living adjustments are granted to retired members, full funding for that granted cost-of-living adjustment, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of cost-of-living adjustment required to be paid under the pension plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential cost-of-living adjustment.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
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5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

b) Inflation Adjustment Account (IAA) (continued)

The Board monitors the performance of the IAA and, at least annually, reviews a sensitivity analysis of the projected impact on the IAA of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis assists the Board to identify scenarios, some years in advance of their possible occurrence, when the IAA assets may cease to grow and when the Plan may not be able to grant full cost-of-living adjustments for retired members.

6. INVESTMENT INCOME

	2012			2011		
	Current Period			Current Period		
	Income Allocation	Change In Fair Value	Total	Income Allocation	Change In Fair Value	Total
	($ Millions)					
Basic Account						
Short-term	$ 6	$ (1)	$ 5	$ 7	$ 8	$ 15
Canadian Bonds	141	45	186	220	428	648
Canadian Equities	120	190	310	101	(452)	(351)
U.S. Equities	97	316	413	59	64	123
International Equities	153	587	740	137	(564)	(427)
Mortgages	47	(5)	42	53	7	60
Real Estate	244	349	593	95	347	442
Private Placements	84	150	234	94	177	271
	892	1,631	2,523	766	15	781
Less Retirement Annuity Account Income Allocation			(32)			(10)
			2,491			771
Inflation Adjustment Account						
Short-term	1	-	1	1	2	3
Canadian Bonds	24	-	24	41	80	121
Canadian Equities	21	37	58	19	(85)	(66)
U.S. Equities	17	56	73	11	12	23
International Equities	26	108	134	25	(105)	(80)
Mortgages	8	(1)	7	10	1	11
Real Estate	42	46	88	18	63	81
Private Placements	15	22	37	18	32	50
	154	268	422	143	-	143
Total Investment Income	$ 1,046	$ 1,899	$ 2,945	$ 909	$ 15	$ 924

Investment income represents realized and unrealized pooled investment portfolio income attributable to the Plan, as a unitholder, and as calculated by bcIMC, and income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio. The Retirement Annuity Account is allocated a share of Basic Account investment income based on the annual rate of return of the Basic Account. Certain external investment management costs are netted against investment income (Notes 10 and 13).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
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7. CONTRIBUTIONS

	2012					2011
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Supplemental Benefits Account (Note 9)	Total	Total
			($ Millions)			
Members' contributions						
Regular	$ 604	$ -	$ 86	$ 4	$ 694	$ 638
Special agreements	-	5	-	-	5	9
Past service purchases	8	-	2	-	10	5
	612	5	88	4	709	652
Employers' contributions						
Regular	689	-	45	2	736	679
Special agreements	-	6	-	-	6	11
Past service purchases	4	-	1	-	5	6
Retired member group benefits	-	-	-	65	65	59
	693	6	46	67	812	755
Total Contributions	$ 1,305	$ 11	$ 134	$ 71	$ 1,521	$ 1,407

Member and employer contributions are as defined under the pension plan rules. Members' past service purchases are voluntary contributions.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

8. BENEFITS

	2012			
	Basic Account	Inflation adjustment Account	Retirement Annuity Account	Total
	($ Millions)			
Regular pension benefits	$ 962	$ -	$ -	$ 962
Indexing - regular pension benefits	175	-	-	175
Termination and refund benefits	64	59	12	135
Death benefit payments	16	9	-	25
Disability pensions	2	-	-	2
	$ 1,219	$ 68	$ 12	$ 1,299

	2011			
	($ Millions)			
Regular pension benefits	$ 890	$ -	$ -	$ 890
Indexing - regular pension benefits	150	-	-	150
Termination and refund benefits	62	43	20	125
Death benefit payments	13	7	-	20
Disability pensions	2	-	-	2
	$ 1,117	$ 50	$ 20	$ 1,187

Disbursements from the Supplemental Benefits Account are included in the Basic Account.

9. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account funds certain supplemental benefits, for example, pension benefits which exceed the Tax Act limits for registered pension plans are paid through this account. Certain group benefit coverage has been provided for retired members through this account. The availability, type and level of retired member group benefit coverage are contingent upon the availability of funding for such benefits.

To the extent dental and extended health benefits are funded through the Supplemental Benefits Account (2012: $40 million; 2011: $37 million), they are funded from current contributions that would otherwise be employer inflation contributions and should not exceed 0.8% of pensionable salaries. Currently the 0.8% maximum represents approximately 80% of contributions that would otherwise be employer inflation contributions. To the extent medical service plan premiums are funded through the Supplemental Benefits Account (2012: $25 million; 2011: $22 million), they are funded from current contributions that would otherwise be employer basic contributions. Retired member group benefits costs (shown on the Statement of Changes in Net Assets Available for Benefits) represent group benefit costs paid by the Plan less any premiums paid by retired members.

MUNICIPAL PENSION PLAN
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10. INVESTMENT AND ADMINISTRATION COSTS

	2012	2011
	($ Thousands)	
Investment management	$ 47,051	$ 42,340
Benefit administration	32,407	23,279
Other professional services	826	697
Board secretariat costs	656	509
Board remuneration and expenses	612	556
Actuarial	224	134
Audit	81	67
	$ 81,857	$ 67,582

bcIMC and the Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards. Investment management and benefit administration costs are approved by the Board.

Costs for investment management services charged by bcIMC include costs for recovery of its internal and external investment management fees except those external management fees related to corporations wholly owned by investment pooled funds. Investment management costs of $21.8 million (2011: $14.0 million) representing the external management costs incurred by wholly owned corporations of the investment pooled funds are not included in the above amount as they are netted against the related investment income.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by the Pension Corporation. Included in accounts payable is $2.4 million (2011: $3.4 million) due to the Pension Corporation related to these costs.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board remuneration and expenses represent amounts for trustee compensation and direct expenses.

Board secretariat costs represent amounts directly incurred by the Board for costs associated with Board support.

Other professional services costs include insurance and legal fees incurred directly by the Plan.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

11. ACCOUNT TRANSFERS

	2012			2011		
	Basic Account	Retirement Annuity Account	Inflation Adjustment Account	Basic Account	Retirement Annuity Account	Inflation Adjustment Account
			($ Millions)			
Present value of current indexing supplements	$ 312	$ -	$ (312)	$ 91	$ -	$ (91)
Indexing of deferred pensions	7	-	(7)	6	-	(6)
Pensions purchased from Retirement Annuity Account	13	(19)	6	10	(15)	5
	$ 332	$ (19)	$ (313)	$ 107	$ (15)	$ (92)

The IAA is a separate account that is maintained for funding current and future cost-of-living adjustments. The IAA is funded through a portion of ongoing contributions from employers and members (Note 1d), from investment income earned and from excess investment return earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, if members' pension payments are adjusted for the current cost-of-living adjustment, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current cost-of-living adjustment.

When a deferred pension is paid, the present value of cost-of-living adjustments during the deferral period is transferred from the IAA to the Basic Account. Approximately $87 million (2011: $65 million) of the current IAA balance is for cost-of-living adjustments intended for deferred pensions, but not yet transferred to the Basic Account.

When investment earnings in the Basic Account are in excess of the actuarial assumption regarding investment rates of return the excess investment returns are transferred from the Basic Account to the IAA. There have been no excess investment return transfers to the IAA for the years ended December 31, 2002 through 2012. Excess investment returns are based on investment income earned on those Basic Account assets required for pensions currently being paid, approximately $11.0 billion of assets for 2012 (2011: $10.2 billion). The excess investment rate of return is determined by taking the difference between the actual five-year annualized market rate of return (4.0%) and the rate of return used by the actuary (6.5%) in valuing the Plan's liabilities. The calculated excess investment return rate of return for 2012 was –2.5% (2011: -3.7%) resulting in a negative excess investment return amount of $274 million (2011: $376 million negative excess investment return). The cumulative negative excess investment return amount of $1.3 billion, arising from the years 2002 through 2012, will be offset against future positive excess investment return amounts before positive excess investment return transfers will resume.

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
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11. ACCOUNT TRANSFERS (continued)

Negative Excess Investment Return	2012	2011
	($ Millions)	
Cumulative negative excess investment return, beginning of year	$ 948	$ 556
Interest applied to beginning of year amount	38	16
Negative excess investment return	274	376
Cumulative negative excess investment return, end of year	$ 1,260	$ 948

A separate Retirement Annuity Account is maintained to record additional contributions by employers and members under special agreements. If a member is entitled to, and chooses to purchase a pension at retirement, monies are transferred from the Retirement Annuity Account to the Basic and the IAA to fund the pension.

12. COMMITMENTS

The Plan participates in private placement and international real estate pools managed by bcIMC. As at December 31, 2012, the Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately $1,144 million (2011: $928 million).

bcIMC established a collateral account for the Plan that is pledged as security for a future investment opportunity. As at December 31, 2012, $12 million (2011: $12 million) of Basic Account Canadian Bonds are being held as collateral for a letter of credit.

13. FINANCIAL INSTRUMENTS

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. The fair values of these financial instruments approximate their carrying values due to their short term nature.

The Board approves the long-term asset mix policy for investment assets through its Statement of Investment Policies and Procedures (SIPP) and oversees the management of these assets through the Board's investment management agent, bcIMC. The SIPP requires diversification of investments within asset classes, sets guidelines on investment categories and limits the exposure to individual investments and counterparties.

Significant risks are regularly monitored and managed by bcIMC and actions are taken when appropriate, according to the Plan's SIPP. In addition, these risks are reviewed periodically with the Board.

MUNICIPAL PENSION PLAN
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13. FINANCIAL INSTRUMENTS (continued)

a) Fair Value

Fair value measurements of the investment assets and liabilities are based on inputs from one or more levels of a fair value hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities. The three levels of the fair value hierarchy are:

- Level 1 – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The following table details the classification of the Plan's financial instruments based on the fair value hierarchy as at December 31:

	2012				2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
				($ Millions)				
Short-term	$ -	$ 626	$ -	$ 626	$ -	$ 441	$ -	$ 441
Canadian Bonds	44	5,449	-	5,493	8	6,895	-	6,903
Canadian Equities	5,104	33	-	5,137	4,452	48	-	4,500
U.S. Equities	4,279	17	-	4,296	3,430	28	-	3,458
International Equities	6,313	68	-	6,381	4,782	48	-	4,830
Mortgages	-	1,060	28	1,088	(1)	1,056	27	1,082
Real Estate	1	31	4,829	4,861	(8)	21	4,262	4,275
Private Placement	25	38	3,069	3,132	4	15	2,490	2,509
	$ 15,766	$ 7,322	$ 7,926	$ 31,014	$ 12,667	$ 8,552	$ 6,779	$ 27,998

Included in the above table are investments and amounts due from the sale of and payable for the purchase of investments.

There were no significant transfers of investments between Levels.

MUNICIPAL PENSION PLAN
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13. FINANCIAL INSTRUMENTS (continued)

a) Fair Value (continued)

The following table reconciles the Plan's Level 3 fair value measurements.

	2012			
	Mortgages	Real Estate	Private Placement	Total
		($ Millions)		
Balance, beginning of year	$ 27	$ 4,262	$ 2,490	$ 6,779
Net investment income	(3)	604	201	802
Purchases	5	446	885	1,336
Settlements	(1)	(480)	(507)	(988)
Effect of change in share of unit holdings	-	(3)	-	(3)
Balance, end of year	$ 28	$ 4,829	$ 3,069	$ 7,926

	2011			
		($ Millions)		
Balance, beginning of year	$ 26	$ 3,480	$ 2,144	$ 5,650
Net investment income	2	519	182	703
Purchases	1	460	1,045	1,506
Settlements	(2)	(226)	(881)	(1,109)
Effect of change in share of unit holdings	-	29	-	29
Balance, end of year	27	4,262	2,490	6,779

For Level 3 financial instruments unrealized gains on investments held as at December 31, 2012, of $386 million (2011: $551 million) and gains realized and investment income earned during the year of $416 million (2011: $152 million) are included in investment income in Note 6. The effect of change in share of unit holdings reflects the impact on the plan's proportionate holdings within the pool, resulting from other pool participants either entering or exiting the pool.

The mortgages are secured by real estate and are valued using current market yields. Real estate investments are valued quarterly by bcIMC's external real estate investment managers and, at least once every 10 to 18 months by accredited independent appraisers to establish current market values. Private placements are valued annually based on financial statements from private placement external managers. Interim valuations for private placement investments are based on the annual valuations adjusted for subsequent cash flows and changes in foreign exchange rates for investments outside Canada. Investment assumptions used in determining the fair value of real estate investments and private placements are appropriate for the nature of the investment and the market in which the investment is located.

Level 3 investments are primarily comprised of investments in real estate and private placements. The potential impact of possible alternative assumptions on the fair value of each investment is not determinable, due to the nature of the external real estate investment manager valuations or independent appraisals for each real estate investment and the use of other valuation techniques for private placements. The fair values are determined using the most appropriate appraisal method for each real estate investment and the most appropriate valuation technique for private placements.

MUNICIPAL PENSION PLAN
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13. FINANCIAL INSTRUMENTS (continued)

b) Market Risk

Market risk is the risk that the fair values of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. Market risk is comprised of foreign currency risk, interest rate risk, and price risk. Market risk is managed through asset class diversification, diversification within each asset class and credit quality requirements for investments.

i) Foreign Currency Risk

Foreign currency exposure arises from foreign currency denominated investments held indirectly through pooled investment portfolios. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. bcIMC has currency exposure management programs under which it hedges foreign currency exposure through the use of foreign currency forward contracts. A foreign currency forward contract is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate. The Plan's total direct and indirect currency exposure, the impact of hedging and trading activities and its net exposure as at December 31 are as follows:

	2012 Fair Value By Currency				2011 Fair Value By Currency			
(Millions Cdn dollar equivalent)	Total Exposure	Hedging	Net Exposure	% of Total	Total Exposure	Hedging	Net Exposure	% of Total
United States	$ 7,232	$ 363	$ 6,869	60%	$ 5,771	$ 411	$ 5,360	61%
Other Pacific	1,786	24	1,762	15%	1,152	19	1,133	13%
United Kingdom	873	33	840	7%	739	40	699	8%
Emerging markets	603	-	603	5%	381	-	381	4%
Other Europe	594	1	593	5%	569	-	569	6%
Euro Countries	1,140	711	429	4%	825	508	317	4%
Japan	408	2	406	4%	343	3	340	4%
	$ 12,636	$ 1,134	$ 11,502	100%	$ 9,780	$ 981	$ 8,799	100%

In addition to the investments in foreign currencies, the Plan held $18.4 billion (2011: $18.2 billion) of investments denominated in Canadian dollars. The net foreign currency exposure represents 37% (2011: 31%) of the Plan's total investments.

Included in these totals, as at December 31, 2012 and 2011, is net accounts payable for outstanding sales and purchases of investments.

As at December 31, 2012, if the Canadian dollar strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, net assets would have increased or decreased by approximately $1,150 million (2011: $880 million).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

13. FINANCIAL INSTRUMENTS (continued)

b) Market Risk (continued)

ii) Interest Rate Risk

Interest rate risk is the risk that the Plan's investments will change in fair value due to future fluctuations in market interest rates. The risk arises primarily on interest-bearing financial instruments held in short-term investments, fixed income investment pools (bonds and mortgages) and Canadian real return bonds held directly by the Plan. The risk of adverse changes in interest rates is reduced within the underlying investment pools through management of duration in exposure to fixed income securities, the use of floating rate notes and general diversification by security type and geographic region.

The terms to contractual maturity of interest-bearing financial instruments (including accrued interest receivable), as at December 31, are as follows:

	Terms to maturity				2012		2011	
Interest-bearing financial instruments ($ Millions)	Within 1 Year	1 to 5 Years	>5 to 10 Years	Over 10 Years	Total	Effective Yield to Maturity	Total	Effective Yield to Maturity
Short-term	$ 183	$ 424	$ 19	$ -	$ 626	1.47%	$ 441	1.20%
Bonds	90	1,266	1,984	2,092	5,432	1.78%	6,872	1.79%
Real return bonds*	-	-	12	-	12	0.00%	12	0.00%
Mortgages	365	599	123	-	1,087	3.15%	1,074	3.44%
	$ 638	$ 2,289	$ 2,138	$ 2,092	$ 7,157		$ 8,399	

* Effective yield to maturity percentages are only the real return, inflation has not been considered

As at December 31, 2012, if the prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables remaining constant, the fair value of interest-bearing financial instruments (excluding variable interest mortgages) would have decreased or increased by approximately $542 million (2011: $654 million).

Actuarial liabilities are also affected by changes in the assumed investment return. Based on the actuarial valuation for accounting purposes (Note 4a) completed as at December 31, 2009, a 1% reduction in the investment return assumption would have increased the accrued basic benefits of $22,385 million by $3,119 million.

iii) Price Risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from foreign currency risk or interest rate risk) whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. The Plan's investments are subject to price risk through its equity investments and private placement investments bcIMC moderates this risk by diversifying its investments across asset classes based on criteria established in the SIPP. As at December 31, 2012, if equity prices (excluding private placement investments and the non-equity balances in the Canadian, US and International equity funds) increased or decreased by 10% with all other factors remaining constant, net assets would have increased or decreased by approximately $1.6 billion (2011: $1.3 billion).

MUNICIPAL PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
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13. FINANCIAL INSTRUMENTS (continued)

c) Credit Risk

Credit risk is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligations. Credit risk is managed by establishing specific investment criteria, such as minimum credit ratings for investees and counterparties and maximum concentration limits with given counterparties.

Credit risk ratings on financial instruments (short-term, bonds and mortgages)

	2012		2011	
Credit Rating*	*($ Millions)*			
AAA/AA	$ 4,372	61%	$ 5,526	66%
A	1,368	19%	1,439	17%
BBB	330	5%	348	4%
	6,070	85%	7,313	87%
Unrated	1,087	15%	1,086	13%
	$ 7,157	100%	$ 8,399	100%

* Standard & Poor's

The ratings used are defined by the Standard & Poor's rating agency. Obligations rated AAA/AA have the highest rating assigned. The lenders capacity to meet its financial commitment on the obligation is very strong. Bonds assigned an A or BBB rating are weaker with the BBB rating denoting an obligation with adequate protection parameters. Unrated financial instruments consist primarily of mortgages which are secured by real estate.

Credit exposure also exists for members' and employers' contributions receivable and other non-investment assets directly held by the Plan totaling $59 million (2011: $61 million) and for the due from sale of investment of $50 million (2011: $30 million).

d) Liquidity Risk

Liquidity risk is the risk of not being able to meet the Plan's cash requirements in a timely and cost effective manner. Expenditures relate primarily to pensions, termination and refund benefits and investment and administration fees. The Plan forecasts its cash requirements over the near and long term to determine whether sufficient funds are available. The Plan's primary source of liquidity is income generated from the Plan's investments and employer and employee contributions. bcIMC primarily invests in securities that are traded in active markets and can be readily sold. Accounts payable of $19 million (2011: $30 million) and payable for purchase of investments of $127 million (2011: $76 million) are generally due within one month.

MUNICIPAL PENSION PLAN
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14. CAPITAL DISCLOSURES

Capital is defined as the funded status (surplus or deficit) of the Plan as determined by the actuary. The Plan's objective for managing capital is to ensure that the assets of the Plan are invested prudently and effectively with contributions adequate to meet the obligations of the Plan. Management of the Plan's funded status is achieved by adjusting member and employer contribution rates, through implementation of the SIPP that affects the earnings of the Plan and in the case of the IAA, by changing the benefits paid. The Board has a funding policy that outlines the principles that provide guidance in managing this process. The investment performance of the Plan assets is reviewed by the Board on a regular basis compared to relevant industry benchmarks. Benefit entitlement is based on the provisions of the Agreement and the pension plan rules. Funding deficits must be funded over a period not to exceed 15 years.

An actuarial valuation must be prepared at least once every three years. The latest actuarial valuation for funding purposes was prepared as at December 31, 2009, and has three Components; the Basic non-indexed benefits (Note 5a) and by considering the valuation of the entire Plan, the non guaranteed IAA benefits (Note 5b) and the retirement annuity account (Note 1d). The next full actuarial valuation will be at December 31, 2012, for inclusion in the December 31, 2013, financial statements.

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